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Strategies for Family Businesses in Abu Dhabi to 2030

Alfahim, Aamer Abdul Jalil

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Faculty of Business, Environment and Society

Strategies for Family Businesses in Abu Dhabi to 2030

Aamer Abdul Jalil Alfahim

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE UNIVERSITY'S
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ABSTRACT

In the 21st century, family businesses around the world face significant challenges and plentiful opportunities. The growth and survival of family firms depends on their ability to address these challenges, capitalise on their strengths, and take advantage of the opportunities facing them. The family business literature is rich in the experiences of Americans, Koreans, Swedes and many other nationalities, cultures and religions around the world, but there is a paucity of documented evidence that relates to the Arab world. This study adds a new and important specific contribution to the literature by addressing the field of family businesses in the Arab world, and Abu Dhabi in particular.

The thesis concentrates on large family firms which have their headquarters in Abu Dhabi in the United Arab Emirates. The main reason for this choice is pragmatic; the researcher has far greater access to the principals (CEO's and Chairmen in particular) of Abu Dhabi based family firms than those headquartered elsewhere. This thesis identifies major themes which will influence the future development of family firms in Abu Dhabi in the medium term (taken to mean up to 2030, the period covered by the Abu Dhabi Vision).

The research design chosen is an exploratory one. It does not seek to make predictions concerning the future of family firms in Abu Dhabi but attempts to explain the phenomenon of family firms in Abu Dhabi to the extent that explanation helps shed light on possible alternative strategies which such firms might need to adopt if they are to continue to prosper. The research relies heavily on expert interviews. Such a strategy is warranted by the dearth of published data of any sort.

This research also makes a useful contribution to our understanding of family firms in general. By concentrating on a hitherto under-researched context, the study adds to our overall understanding by broadening the range of comparative studies of family firms which are available to other researchers.

Keywords: Family business; UAE; Abu Dhabi; sustainability

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Chapter 1

Introduction

1.1 Introduction

This research deals with family businesses, a sector that plays an important role in the economy of many countries. For example, according to Emling (2000), Swedish family firms are estimated to account for half of the national annual GDP growth in the private sector and family firms have been described as “the backbone of the Swedish economy”. In the USA in 2003, eighty per cent (80%) of all firms were either family controlled, or family owned (when following the definition of Anderson and Reeb, 2003). In Germany, *Mittelstand* companies¹ are outperforming the rest of the economy and their Chinese rivals (Economist, 2011). Family owned business firms in the Arabian Gulf² generally, and the UAE in particular, represent an important category in the Gulf Cooperation Council (GCC)³ market. Figures suggest that a total of 5,000 family businesses still drive ninety percent (90%) of business activity in GCC states and employ seventy percent (70%) of the labour engaged there (Emirates Today, 2007).

History suggests that the heyday of founding new family businesses may well be a thing of the past, with fewer new family firms starting in what is today a mostly corporate culture. Indeed, many existing family businesses have become weaker unless they have grasped the corporate model, and many of those who have not made this essential shift have ended up failing. As each successive generation has taken hold of the reins of power, family firms who lack the leaders with the vision and ability to come to terms with modern day economic realities have suffered greatly.

¹ The name given to Germany’s small and medium-sized business sector.

² The preferred name among Arab nations for the region better known in other countries as the Persian Gulf.

³ The GCC comprises, along with the UAE, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia. The Yemen, also in the Gulf, is not a member.

1.2 Aims and objectives

Despite the obvious importance of the family business sector in Abu Dhabi and other GCC countries there have been very few research studies which have focused on family businesses. The major exception to this is the work of Davis et al. (2000). Some family businesses in Abu Dhabi have grown into large conglomerates with multi-national interests and are important as enterprises per se and not just for their family-owned form. This thesis is intended to go some small way to starting to fill the gaps in our knowledge. The overarching aim of the thesis can be expressed as:

This thesis aims to analyse the importance of the largest family firms in the Abu Dhabi economy now and in the period to 2030.

This aim will be supported by pursuing a number of objectives; it will

- Provide an up-to-date assessment of the importance of family firms in the Abu Dhabi economy
- Set Abu Dhabi family firms within the changing political and social context of the developing UAE economy
- Analyse the external and internal environmental challenges which Abu Dhabi family firms are facing
- Make recommendations for the way in which family firms might develop themselves to ensure their future prosperity in the medium term

1.3 Key research questions

The overarching question which this research explores is:

What are the future prospects for the largest family firms in Abu Dhabi?

It is timely to explore this topic for a number of reasons. Firstly, Abu Dhabi is in the process of embarking on an ambitious long-term development programme which is set out in the Abu Dhabi Vision 2030⁴ (Abu Dhabi Department of Development, 2007). This programme is

⁴ Often referred to as the “Vision” or “Vision 2030”.

of major importance because, for the first time, it sets out a wide-ranging agenda for the sustainable development of the Abu Dhabi economy, rather than a narrowly-based economic plan that concentrates on the petrochemical industry and physical infrastructure projects. Inter alia, the Vision 2030 sees a much greater role for the private sector of the economy in creating rich, new, and diverse employment opportunities, particularly for Emirati citizens. This is to be achieved by leading the transformation from a centrally-based governmentally-financed economy based on exploitation of natural resources, to one which is knowledge-based, innovative and far more diversified, to generate solid and sustainable growth and investment. The Vision was developed during the period 2006-2008, when Abu Dhabi was experiencing a generational change in its rulers. Sheikh Zayed, who had ruled since 1966, had steered Abu Dhabi through its formative years when the oil industry was in its infancy, but which brought about the establishment of Abu Dhabi as a major petrochemical producer, and, arguably, the creation of the United Arab Emirates (UAE) itself in 1971. Zayed was, however, a traditional leader, anxious to preserve the bedrock of Bedouin culture (Davidson, 2009). The generational change in leadership in 2006 was a watershed for Abu Dhabi and the Vision 2030 is the first major expression of genuine transformational change.

Secondly, these challenges and opportunities are arising at a time when many family companies have transferred ownership from their founders to the second generation. Sustaining these family firms through generational transitions against an economic backdrop of the major transformational change envisaged by the Vision 2030 is a far from easy task and one which creates that the need for family firms to reassess their own strategies and futures.

Thirdly, many larger family firms are now reaching the stage where further growth can only be achieved if they expand their operations outside their traditional home markets. Thus, they are becoming exposed to global market pressures and expectations. These external pressures for change are only likely to increase as time goes by.

The major research question will be examined and developed through posing a number of sub-questions:

- *How have large family firms developed in the Abu Dhabi economy?*
- *How important are larger family firms within the economy?*
- *What are the challenges and threats, both internal and external, to future development of family firms in Abu Dhabi?*
- *What are the opportunities for, and expectations of, family firms in Abu Dhabi?*
- *What strategies and policies are likely to be needed to ensure the future sustainability of family firms in Abu Dhabi?*

1.4 Scope of the research

This thesis concentrates its attention on the largest family firms in Abu Dhabi. Whilst this is a simple statement to write down, it is difficult to operationalise for at least two reasons. Firstly, family firms in the UAE (of which Abu Dhabi is a major part) are under no legal or other obligation to disclose any data on turnover, profits, assets, employment, investment or any other performance measure which might be used as a proxy for size. As a consequence, simply identifying the “largest” family firms presents a problem⁵. Secondly, large family firms usually operate beyond the boundaries of a single emirate, such as Abu Dhabi⁶. The UAE is a small, open economy and the borders between the constituent emirates are as open as those between the constituent countries of the UK or states within the US. Larger family firms spread their activities far beyond emirate boundaries, and often have business interests in the wider region or more globally.

However, it is necessary to limit the scope of the research in some way. This thesis therefore concentrates on large family firms which have their headquarters in Abu Dhabi. The main reason for this choice is pragmatic; the researcher has far greater access to the principals (CEO’s and Chairmen in particular) of Abu Dhabi based family firms than those headquartered elsewhere. The major research method used in this thesis is semi-structured interviewing⁷, and access to interviewees is a pre-condition for the success of the research.

⁵ The criteria for inclusion of firms in this study are set out in Chapter 4.

⁶ The Abu Dhabi economic, political and social context is discussed in Chapter 4.

⁷ The reasons for this choice are given in Chapter 3.

It is also important to define a time frame for the scope of the research. Reference has already been made to the Vision 2030 and there are compelling arguments for taking the period up to 2030 as the time frame. The most important ones are that the Vision sets the overall strategic context within which Abu Dhabi family firms will have to operate. Secondly many of the largest family firms have made the generational shift from first to second generation and the third generation will be coming to the fore over the next few years. Thirdly, the almost twenty years from the time of conducting this research to 2030 allows a long-run view to be taken and brings the discussion of major changes into play.

1.5 The importance of the topic

Even though family businesses play a major role in the GCC and UAE economies, and Abu Dhabi in particular, they have attracted very little attention from academic researchers. This is in stark contrast to the level of interest they have attracted in other countries. The lack of publicly available data on family firms may be one explanation for the gap between the obvious importance of the family firm phenomenon in the regional context and the lack of research into it. Data is collected on general employment, but is not made public. Obviously, family firms do maintain accounting and other records for management purposes, but these are entirely internal documents. The lack of data on, and transparency of, family companies should not be interpreted as intended secrecy or a systematic attempt to avoid public scrutiny, but is rather a reflection of Arab and Islamic mores which regards such matters as family rather than public ones.

Coupled with a strong belief, derived from Islam, in the family as being the centre of all aspects of life, there is little reason or incentive for families to disclose information on the activities of their firms. This thesis will not be able to fill these quantitative data gaps; however it will offer a qualitative judgement on each of the research questions. What is clear, however, is that large family firms are an important economic, political and social force in the Abu Dhabi and UAE economies and are worthy of research attention, notwithstanding the difficulties which are posed by a lack of quantitative data.

While there have been many prior studies focusing on family businesses issues, this research differs in that it focuses on family business strategy in the particular context of Abu

Dhabi, and aims to shed light on strategies for the sustainability of family businesses. This begs the question of whether or not family businesses in Abu Dhabi and, by extension the wider Arab world, are different from those in other countries and cultures. Do they encounter the same issues as their counterparts in other countries? Clearly some of the issues which family businesses face will have common roots in all countries and cultures. For example, the difficulties of managing the tensions between competing family and business interests are common to all family businesses. The potential for family businesses to become seriously destabilised as they are passed from one generation to the next is a further example of an issue which transcends cultural contexts. The human resource issues of gaining access to talent, entrepreneurship and leadership, whilst still maintaining the family firm form have a long and widespread history. Given that family firms in the UAE are younger than those in many other countries it is tempting to conclude that they will be able to learn from the experiences of their peers elsewhere. Surely, it might be argued, the paths being trodden by the Alfahims, Al Jabers and other current family firm owners in Abu Dhabi are those which the Sainsburys, Clarks and Cadburys from the UK and the Fords, Rockefellers and Waltons in the US laid out several generations ago?

There is obviously some sense in this argument and this research could clearly ask the question of what UAE family firms could learn from experience in other countries. However, it is also important to be conscious of the differences and the limitations of such comparisons. Many of the great family firms in developed countries were founded in a very different age. An age in which the economy was less globalised, the pace of change was slower, regulatory and governance frameworks less sophisticated and markets more predictable⁸. The balancing question is what we might be able to learn from a study of family firms in the UAE now which will enhance our understanding of family firms in general. This thesis will extend our knowledge of family firms in general by adding an important study which is located in a different cultural context and novel time frame, that is relatively young family firms attempting to survive and prosper in a today's economy. In one sense,

⁸ Although this is a generalisation. Rapid change and unpredictability also provide opportunities for family firms to emerge. The international economy was also extremely open in the period 1870 to 1914 and less regulated. This was also a period of rapid technological innovation. However, the substantive point remains; it can be dangerous to draw too many conclusions from the experiences of family firms in other contexts and at other times.

therefore, this thesis adds a case study of family firms in Abu Dhabi to enhance our existing knowledge of family firms in general.

1.6 The Arab context

Loyalty is extremely important in Arab culture. A family business, in the Arab world especially, starts from the basis of strong family kinship bonds. Kinship bonds are then, in Arab societies, overlaid with tribal, national and supranational bonds of loyalty. Initially, family groupings developed family businesses because of the prevalence of family and tribal bonds of kinship loyalty. These companies still remain strong today, even after many years of operation and vast increases in the size and scope of their business. In the UAE, this growth is particularly noticeable in sectors such as real estate and construction.

Personal commitment and personal relationships are integral factors that underpin family businesses. Loyalty and trust are also the two main pillars of stability that support the operation of the business and ensure a solid structure, resilience and ultimately, sustainability. Loyalty to the family's cultural and religious ideals is a key factor that effectively delineates the way in which members of the company approach company business. Added to this is the high degree of job security and the shared history and experiences that members of family businesses have experienced together. Moreover, shared socio-cultural identity and language form a major parameter of family business attractiveness. It is also important not to overlook the reciprocal nature of economic and non-economic relations in family firms which lead to the successful creation of wealth through the combination of family and business systems (Habbershon and Williams, 1999). These may be especially important in the cultural milieu of the Gulf States.

1.7 My interest in the research topic

The researcher is Executive Director of a prominent family business in Abu Dhabi⁹; this allows for a distinctive research perspective to be taken. At the same time it also promotes a special degree of understanding of the core elements of this research. By using personal insights gained through running a family business, the researcher is able to enrich the

⁹ Alfahim PJSC; see <http://www.alfahim.com>

project with a depth of experience which may otherwise be absent. I am also a member of several business advisory bodies in the UAE, and such membership confers a context for external verification and testing understanding of the key themes of this research. In addition my position as a “trusted insider” gives me access to interviewees which might not be available to others. However, such relationships can only be exploited with care. On the one hand, it is important that interviewees are clear about when interactions are of the researcher-informant type rather than ones between business confidantes; on the other it is important for me, as a researcher, to recognise the possibility that I might be biased in some way because of my position. These issues are discussed further in Chapter 3.

1.8 Contribution to knowledge

It is commonplace to distinguish between “rational” and “empirical” knowledge.¹⁰ Empirical knowledge is derived from observation of the world and/or interacting with it in some way. Rational knowledge, although it is a widely debated distinction, can be thought of as knowledge which is independent of our experience or at least is context-independent. Many social scientists argue that, within the social science domain, knowledge has both rational and empirical dimensions and is rather than being context-independent is always contingent in the sense of depending on the particular situation in which the knowledge is applied or developed (Flyvbjerg, 2007). This thesis makes a contribution to our collective empirical knowledge of family firm, both in a particular context and, hopefully, more generally. To a limited extent it can be seen as an instance of testing of some received theories of family firm development, but that is not its major purpose.

Phillips and Pugh (2010) identify a number of ways in which a PhD thesis may be considered to be original. The first of these is

...setting down a major piece of new information in writing for the first time...

¹⁰ This distinction forms the basis of Kantian philosophy. However, it is not part of the function of this thesis to debate the distinction per se, or to debate the nature of knowledge in general. It is invoked here for its usefulness.

This thesis explores and analyses the changing position of family firms in an important developing economy, albeit a small one, at a critical time in its development. Whilst there are major similarities between family firms in Abu Dhabi and those in the rest of the world, there are also differences which are worthy of research attention. The context is therefore of particular interest and the study of it capable of making a useful contribution to empirical knowledge.

1.9 Summary

This study is expected to add a new and important specific contribution to the literature pertaining to the field of family businesses in the Arab world more generally, and Abu Dhabi in particular. Although there are many studies of Arabic and Islamic culture and their relationship to bonds of kinship, familial and other relationships, this research takes the under-researched perspective of family businesses. The family business literature is rich in the experiences of Americans, Koreans, Swedes and many other nationalities, cultures and religions around the world, but there is a paucity of documented evidence that relates to the Arab world and the Arabian Gulf.

The importance of family businesses in the UAE and Abu Dhabi cannot be understated. They are the direct trigger that arguably underpins growth and continued sustainability in the local market. The generic literature is clear: few family businesses survive after the third generation. This study analyses strategies which may help Abu Dhabi family businesses through these difficult watersheds of change and help promote their continued stability and growth.

Chapter 2

Literature review

2.1 Introduction

The purposes of this literature review are to:

- Discuss some major theoretical frameworks and concepts of relevance to the topic being researched
- Establish a theoretical background against which to analyse the research problem
- Identify key concepts which will help analyse specific issues
- Identify relationships between ideas and practice in the field of family business management

The relevant literature relating to research methodology will be discussed in Chapter 3.

Family businesses are a topic of great interest in the United States literature (see, for example, Hollander and Elman, 1990; Dumas, 1992; Daily and Dollinger, 1993; Hoy and Verser, 1994; Reynolds, 1995; Morris et al., 1997); however, very few studies have explored the nature of family business activity and performance in Arab countries. Whilst research on the scale, nature, and economic contributions of family business is still very limited in the Arab and developing countries, policy makers must recognise the importance of family business and need to know how and why they should seek to support the survival and growth of family firms. The aim of the chapter is to provide an overall conceptual and theoretical background for family businesses in general, against which the specific context of family businesses in the UAE, and Abu Dhabi in particular, can be explored in later chapters.

Family businesses present many paradoxes and contradictions. Most researchers identify their distinctive feature as being the influence of family on business (Hall and Nordqvist, 2008). This may seem an obvious statement to make, but the usefulness of separating out family businesses from other types is hardly worthwhile unless the operational distinction (a

business linked strongly to a family) is backed up by important differences in the behaviour of such businesses (Chua et al., 1999). If the only difference between a family business and other businesses is in terms of the nature of ownership, then there would be little point in investing research time in them. In this case, although there would be a separation between the family and the business, the family would simply be owners indistinct in practical terms from any other category of owners. Of course, the reverse position is what makes family businesses interesting. The intertwining of family and business relationships and the different behavioural patterns that family owners display are at the heart of both the relative strengths and weaknesses of family businesses. For example, family relationships can become strained and spill over into business disputes (Molly et al., 2010). The greatest threats to the survival of family businesses are not external but the internal ones of conflict between family members (Ward, 2004; Royer et al., 2008). Family members often use the business as a stage for acting out intense personal issues (Rodriguez et al., 1999). Gordon and Nicholson (2008), in their revealingly titled book *Family Wars*, recount and analyse a wide range of sources of conflict in family businesses from sibling rivalry to succession challenges, marriage politics and dealing with free riders. However, the defining feature of family conflicts is their intensely personal nature, a feature which is not always present in business conflicts. Running the successful family business may be more concerned with maintaining good family relationships than managing the business per se (Zbar, 2004).

The chapter starts with providing an overview of definitions of family business. It then presents a summary of the structures of family business relationships including their characteristics. The differences between family and non-family businesses are then outlined. After that, a discussion of the main problems facing the development and operation of family businesses will be presented. The negative aspects of family businesses are counterbalanced by a discussion of positive features. Finally, some important issues will be discussed including corporate governance, the problem of proliferation of the family as the number of family members increases and the issues posed by growth.

In assessing the relevance of the literature to this research it is important to keep the scope of the thesis in mind. The focus here is on larger family firms. Much of the literature deals with small and medium-sized firms, a definition which would not encompass any of the

businesses featured in this thesis. In addition, many studies which compare family and non-family firms rely on publicly available data, particularly where firm performance is concerned. By definition this means that such firms have disclosed performance data and are subject to stakeholder scrutiny. Where such studies use stock market data the family firms are listed and have a degree of public ownership. All the firms in this study are privately owned, are not listed on any stock market and are not subject to public disclosure requirements. This raises a question as to whether the act of disclosure induces changes in the behaviour of owners and managers of family firms; in particular would disclosure and greater transparency push family firms into acting more like non-family firms. Nevertheless, the wider literature on family firms forms a valuable basis on which to begin to identify potential issues which might affect the future of large family firms in Abu Dhabi; put simplistically families are families and businesses are businesses and family businesses are a mix of the two – wherever and whenever the occur.

2.2 Sources of literature employed

The brief sections below identify the sources of literature included in this review. Given the applied nature of this research it is important to include a broad range of types of sources and not simply rely on those which would be commonly described as “academic”. This broader approach is especially warranted here given the lack of academic studies on family businesses which fall within the scope of this research (that is larger privately held businesses in the UAE). The approach recognises an important aspect of originality of this thesis as well as strengthening the contribution which “non-academic” sources can make to the overall work, even though some of them may be difficult to judge in terms of conventional academic criteria.

2.2.1 Region specific academic literature

The researcher is a native Arabic speaker and can therefore access and use both English and Arabic language sources. The literature dealing with the regional context is not extensive in either language and it is obviously important that it is compared and contrasted with the wider international literature on family firms. In reviewing the Arabic literature specific areas of interest are:

- The applicability of the international theories to the domestic culture

- Arab opinion on the role and importance of family firms
- Any adjustments and developments to the received theories warranted in order to apply them in the local (Abu Dhabi) context

2.2.2 Public reports and government publications

Reports and government publications, including those published by government agencies, provide valuable insights into the way in which family firms are viewed (see, for example, ADCCI, 2008; DIFC, 2009; ADDED, 2010). Whilst the most important publications are published in English, there are also very useful Arabic-only publications, particularly those which are directed at a predominantly internal audience. A library search was conducted at the Chambers of Commerce in Abu Dhabi and Dubai to locate documents in addition to those the researcher obtained as part of his usual professional activities.

2.2.3 Commercial reports and publications

This category embraces publications by banks and other financial institutions, consultancies, business news services and “infomediaries”¹, newspapers and other publications which are disseminated with an element of commercial gain in prospect (see, for example, Dow Jones, 2007; Booz and Company, 2009; PwC, 2010). Whilst it is always important to keep the motivation of publishers of such material in mind, banks and other financial institutions often publish research of interest based on surveys of clients or case studies. Given the lack of publically available data on family firms in the region, such information can be particularly useful, provided it is not over-interpreted or used as a sole authority. Local and regional newspapers also provide useful data and commentary.

2.2.4 Grey literature

Grey literature is information that is not fully in the public domain (for example DCCI, 2006; DPE, 2008). Such reports are often prepared for internal circulation in government

¹ Infomediaries are information collection and dissemination businesses. They have an important role in the efficient operation of markets by improving the quality and quantity of information available to investors, consumers, regulators, potential business partners and others. Their potential role in the Middle East region is discussed by Leigh (2009). Business Intelligence Middle East (BI-ME) is a particularly useful and authoritative monitoring service.

departments or elsewhere, as a result much grey literature is confidential and cannot be directly quoted or, in some cases, even seen.

2.2.5 Presentations and conference papers

In Abu Dhabi, many workshops and seminars are given on a broad range of issues, including ones especially relevant to family firms. Such presentations are sometimes given by leading international thinkers on family firm issues. Examples include Saidi (2008) and Porter (2010).

2.2.6 Internet sources

Internet sources from both public and private websites relevant to family firms were also considered. However, it is necessary to ensure the quality and credibility (provenance) of such sources before inclusion in academic research.

2.3 Defining the Family Business

Any attempt to define the family business should consider the degree of family members' engagement in the business along a number of dimensions, the principal ones of which are ownership, control and management (see for example, Holland and Boulton, 1984; Handler, 1989; Chua et al., 1999; Chua et al., 2003). Definitions of family businesses generally tend to focus on ownership and/or control of the business by the family; operational management of the business by the family is less important in definitional terms and, in any case, is probably not a realistic option for larger family businesses. Neubeauer and Lank (1998) argue that these distinctions increase the complexity of defining the term "family business" or "family firm". Overall, definitions indicate that the main interest of family businesses is business and the way in which it is linked to the family; the business is essential and the family is an adjunct. For example, Venter (2002:17) defines a family business as one that is owned by members of the same family to shape and/or pursue the formal or implicit vision of the business, in which it is the intention of family members to hand the business over to the next generation, or which has already been handed over to a family member to manage and/or control it. Schwass (2005) defines a family business as an enterprise where the owning family exercises total or important control of its ownership and therefore influences management directly or indirectly.

However, there is general agreement that firms or businesses which are owned, controlled and managed by families are family businesses even though there may not be complete family dominance along all dimensions. Nevertheless, there is an important distinction between ownership and management, and a useful definition should take account of both aspects. For example, family members could own part or all of the company with or without being fully involved in management, for example they could be the “president” or a passive member of the board. In the UAE many family companies operate as agencies² for foreign companies. It is the norm rather than the exception for foreign companies wishing to operate in the UAE to do so via an agency company which is at least 51% owned by UAE nationals. Agency agreements are the only means of entry into large sections of the UAE market. However, many agency companies, whilst being legally “owned” by UAE families are not managed by them nor is any family control exercised over the business. Such firms are “cosmetically owned” by UAE nationals but controlled by foreigners (Al Shamsi, 2001; Moustafa, 2005). On the other hand, many family firms in the UAE which started life as agents still retain agency agreements with foreign firms, but the nature of the relationship between foreign principals and their agents has developed to be one of partnership with the UAE agent having full control over the UAE-based business.

Holland and Boulton (1984) made a distinction between internal and external relationships and their effects on decision-making in family businesses. They used the phrase “internal” to encapsulate business organisational politics, and “external” to embrace the management of (external) stakeholder relationships. They argued that the major problem for a family business is how to manage these competing relationships. This adds weight to the idea that the family business is a business with the family involved, rather than the reverse. Schwass (2005) also sees successful family businesses as ones which create a dynamic balance between the needs of the family, owners, management and individuals. Arguably all businesses need to keep the interests of these major stakeholders in balance, except that a family will not be part of the equation. On the other hand family businesses may not have any external owners (as opposed to lenders) and there could be (but by no means always) a close alignment between individual aspirations and family needs. Note the term “dynamic

² “Agent” is a broad term covering agents, distributors, licensees and franchisees. Some major aspects of UAE commercial law as applied to family firms are briefly outlined in Chapter 4.

balance” here. Schwass, like many other researchers, points out that the most difficult balancing issues occur as family businesses react to pressures for change, whether these arise internally, for example at times of succession, or are a result of external factors, for example international financial crisis.

Handler (1989) offered a broad definition of a family business:

A family business is defined..... as an organisation whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board.

This definition stresses the sustainability of the business as a family business. On the other hand, the definition dismisses ownership criteria (or assumes that it is given that the family owns the business) and focuses on continuity of family leadership of the business. For Handler, and many others, a “family business” can only be considered to be one in reality if there is the strong intention that it should remain so.

Chua et al. (1999) conducted an extensive review of family business research. They collected a list of twenty-one definitions that included the degree or nature of family involvement. The definitions embraced three different combinations of ownership and management (but not control):

- Family owned and family managed.
- Family owned but not family managed.
- Family managed but not family owned.

In concentrating on just the two dimensions of ownership and management they are implicitly assuming that control is also in the hands of the family; indeed “controlling ownership” would be a better phrase. However, the more interesting question is whether the family can exercise effective control without being involved in operational (rather than strategic) management. This question gains importance as family businesses grow and day-to-day management of the business is undertaken by professionals who may not be family members. Osterman makes one part of the argument well:

Middle managers.....act as the transmission belt between the top of the organization and the bottom, and make day-to-day choices and trade-offs that escape the attention of top management yet are central to the organization's performance. (Osterman, 2008:66)

The other main strand of the argument is that managers of firms may have objectives which are not consistent with those of the owners, such as family members. In this case the owners may need to expend resources in ensuring that managers' objectives do align with their own. Such expense will take the form of providing an appropriate incentive structure and/or "policing" costs. On the other hand, the wider, deeper and more specialist inputs that experienced professional managers bring may result in performance benefits which outweigh any control losses. Evidence from Asian (Claessens et al., 2000) and German (Audretsch et al., 2010) firms suggests that the latter benefits outweigh the former costs. However, both these studies analysed data from publicly quoted family firms, that is firms where family held a majority of the shares but a significant proportion of shares were still openly and publicly traded. Arguably such firms could benefit from the advantages which close family control might bring whilst, at the same time, being subject to stock market discipline.

Chua et al. (1999) also draw attention to the term "family". In particular they distinguish between nuclear and extended families. Their analysis of definition of "family firm" leads them to conclude that there may be difficulties in counting firms which are owned by extended families in the definition. However, their range of twenty-one definitions was collected from research papers which analysed developed economies on a western capitalist model. In Arab culture the extended family still retains a much more central role in society than it does in many other countries, and there may be less reason to question whether or not firms held by extended families really are family firms in behavioural terms. As Davis et al. (2000) note:

...The family with its extended kinship network is probably the central element of the Gulf Region socioeconomic system. The family household unit in the Gulf, the extended family, and the family's close allies are the chief nurturers and arbiters of individuals' values, attitudes, and beliefs. A person's primary social and economic support comes from his or her nuclear and extended families.....There is a strong cultural preference that business opportunities should be pursued.....within the family...

In this research a family firm must meet three criteria:

- The firm must be owned and governed³ by the family
- The firm must be developed in a way that is consistent with the strategic direction held by the family
- The firm must be potentially sustainable across family generations

2.4 The prevalence of family businesses

Family businesses are ubiquitous in market economies (Astrachan et al., 2003). However, across countries, there are significant differences in the extent to which companies are either family owned or widely held. Some of these differences can be explained by inadequate legal protection of minority shareholders. La Porta, et al (1999) investigated this phenomenon within 27 wealthy countries and found that family ownership is relatively more prevalent in countries with poor minority shareholder protection. However, this result cannot be taken to imply positive causality in the sense that poor minority shareholder protection promotes family ownership of business. It would seem more likely that both are related to a third variable, that is the stage of a country's development. Data presented by Saidi (2008) showing the market value of family owned firms as a percentage of the total equity market value of the top twenty firms in different countries showed much higher concentrations of large family firms in middle income countries than high income ones. The proportions ranged from 0% in the UK to 100% in Mexico⁴. Countries which have not developed mature market economies are likely to have both a large number of family businesses and less stringent corporate governance requirements, including a relative lack of protection for minority shareholders.

However, it may be that there is a causal link running from lack of minority shareholder protection and the prevalence of family firms. La Porta, et al. supported the explanation that family ownership is an optimal response to insufficient minority shareholder protection. This argument is in agreement with the 'classic' view in corporate finance that the ownership structure of firms is chosen optimally to minimise agency costs arising from

³ Governance is discussed in Section 2.12

⁴ Data was not provided for Middle East countries, possibly because market values of most private companies are not available.

conflicts of interest between shareholders and management. In particular, family firms may be particularly effective at coping with difficult labour relations. La Porta et al. show that countries with unfriendly labour relations have relatively more family ownership than do countries with cooperative labour relations.

Estimates of the prevalence of family businesses in the UAE are difficult to make. According to Saidi⁵ (quoted in BI-ME, 2010a), 90% of the businesses in the Middle East are family businesses. Dow Jones (2007) estimate that, in the GCC, over 90% of all commercial activity is controlled by family firms. They hold an estimated \$500 billion in assets and employ more than 70% of the workforce. Comparable figures for the UK are 50% of economic activity is in the hands of family businesses and 50% of private sector employment (Hall, 2007). Dorgan et al. (2006) give data for the share of family-owned businesses; in France, the UK and Germany roughly one in three businesses is a family one whilst in the US it is one in ten. Whilst such estimates need to be treated with caution, it is clear that family businesses are particularly prevalent in the Gulf region. The international management consulting company Booz & Company (2009) suggest three environmental reasons for this:

- Policies which limit external competition, the availability preferential access to cheap and abundant capital and “inside” access to business networks and information
- More concentrated control within families at the first and second generation level than occurs elsewhere
- A cultural heritage which respects traditional rules of succession and thus reduces the tendency towards family feuds at critical points in time

2.5 Types of family business

Schwass (2005) identifies three archetypal forms of family business. “Ephemeral” family business are short-lived and do not survive into the second generation. They are usually dependent on one strong entrepreneur (the founder) but lack the structures and processes to effectively grow others into the business. Some such businesses may survive, but not in family form. For example many high-tech start-ups fall into this category. The business is ephemeral in family form or, more often than not, simply ephemeral.

⁵ Dr. Nasser Al Saidi, Chief Economist of the Dubai International Financial Centre.

“Preserving” family businesses are perhaps what many people think of as traditional family businesses. They show little growth and do not move outside their original activities. They tend to retain a traditional form and succession is often based on birthright rather than interest or ability. A major problem for preserving family businesses is that they do not grow fast enough to satisfy increasing numbers of family members as time passes. Family interest is forced to decline for some family members and generational transitions become painful. Family agricultural businesses such as farms and local retailing are examples.

Daily and Dollinger (1993) state that some family businesses operate on the margins of the private sector, with no plans to grow in size and operations. Essentially such businesses are a substitute for gaining income from employment with all the restrictions which working for someone else might entail. Thus, some family businesses

...only grow at a pace consistent with meeting the advancement needs of organisational members in the family system...

These businesses are “preserving” ones in the categorisation of Schwass.

“Entrepreneurial” family businesses work hard to expand and diversify in ways which embrace both growing family numbers and the evolving aspirations of successive generations. Whereas preserving family businesses stick to traditional activities, entrepreneurial businesses value diversity as a route to growth. Given that we are here studying the largest family businesses in Abu Dhabi, they will almost certainly fall into the entrepreneurial category.

Ward (1987) categorised family businesses into “family first” and those which could be described as “business first”. This categorisation was amplified by Reid et al. (1999) across two dimensions, the assumptions that families made about the nature of business and the business circumstances. Table 2.1 summarises the results.

Table 2.1 Family business categories: Family first and business first

FAMILY FIRST GROUP	BUSINESS FIRST GROUP
1. Family Assumptions	
Are more rigid in their views and tend to centralise decision making.	Are less rigid in their views.
Are less likely to take risks; diversification is the least likely growth strategy and the aim is to maintain the business in its current state.	Are more likely to take risks.
Are less likely to strategically plan.	Are more likely to strategically plan.
Believe in 'equality of results'; jobs for family members are a birthright.	Believe in 'equality of opportunity'; after a certain point family members should make their own way in the world.
Dependence; family members given little freedom to follow their own paths.	Independence; each family member has the freedom to follow their own path.
2. Family and Business Circumstances	
Smaller Business Wealth	Larger Business Wealth
Smaller Business Size	Larger Business Size.
Fewer Family Members	More Family Members
Low-Tech Business	High-Tech Business

Sources: Ward (1987); Reid et al. (1999).

Whilst Reid et al. and Ward studied smaller family firms, the distinction between family-first and business-first is still a useful one where larger firms are concerned. There are two main reasons for this. Firstly, larger family firms are still family firms and the tensions between family and business still remain. Secondly, it seems a reasonable proposition that firms will tend to move from a more family-first orientation to a business-first orientation as they grow. This suggests that the circumstances in the bottom right hand sector of Table 2.1 are the drivers towards adopting a more business-first stance rather than the consequences of an ex ante adoption of such an approach. In other words growth and success pushes the family to change its orientation from “business serves the family” to one of “family serves the business”. This developmental view is consistent with the dynamic model of family businesses of Gersick et al. (1997). They argue that the early stages of a family firm’s life will

be dominated by the need to survive and that business considerations will dominate. In later stages of development attention may turn to creating opportunities for family members to participate. The third stage is that identified for larger family firms as they move towards the bottom right hand corner of the table.

Whilst the distinction between “family first” and “business first” firms is a useful one it is still based on a simple conception of the family firm as being at the intersection of two systems – the family and the business. This can be represented in a simple way as shown in Figure 2.1.

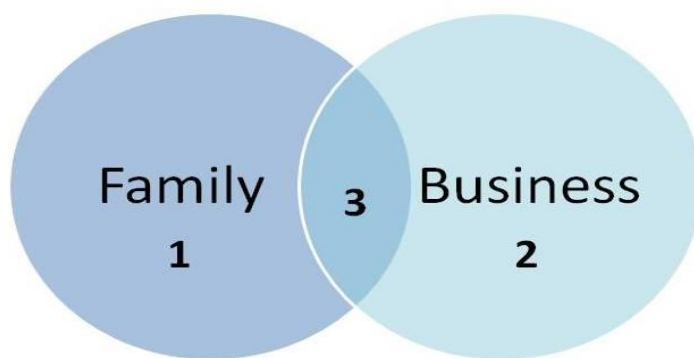


Figure 2.1: Family business: a simple view

In this conception there are only three major interest groups. Group 1 is the family. Group 2 comprises external investors, suppliers and anyone else who may be a lender to the firm. Group 3 are family members who are directly involved in the business. Region 3 has also been characterised as the “unclear boundaries” of the family firm (Encyclopedia of Business, 2000). The importance of studying family businesses holistically, that is treating the family and business systems as being an integrated whole rather than separate entities, has been emphasised by the results of Rodriguez (2009). In a study of 732 Spanish family businesses she found that enterprises which gave more emphasis to families and business as a whole achieved better results than those which limited governance considerations to just the business. A broader and perhaps more interesting perspective is provided by Hubler (2009) in his discussion of the “soul” of the family business. From Hubler’s perspective, soul is:

...what drives all that happens in family business, as well as the indefinable essence of a family's spirit and being. Soul cannot be measured or quantified, but it is easily recognizable by its presence and even by its absence...

Family business soul manifests itself in shared visions and values, reciprocal commitment to each other's success, building family "emotional equity"⁶ and having a clear business morality supported by ethical norms to guide business practice. Soul can derive from shared religious beliefs, for example those of the Quakers or Calvinists during the height of the industrial period in the US and Europe, or from Islam in successful Middle East family companies today,

A more complete view will have more intersecting ovals (and more unclear boundaries) to recognise other interests in the family business. For example, Figure 2.2 is adapted from that used by the management consultants PwC (2010). Here groups 1 and 2 remain the same. Group 3 are inactive or passive family owners. Group 4 can be interpreted as a group of people who have some "ownership" stake in the company in a broad sense. This group includes managers and employees. Group 5 are family employees. Group 6 are owner-managers. Group 7 are family owners working actively in the firm. This diagram emphasises the differing interests various family members may have in the family business. As the business matures and the family grows larger the relative sizes of the family groups will change. Group 7 will become relatively smaller whilst groups 1, 3 and 5 may grow. This will change the dynamics of the firm.

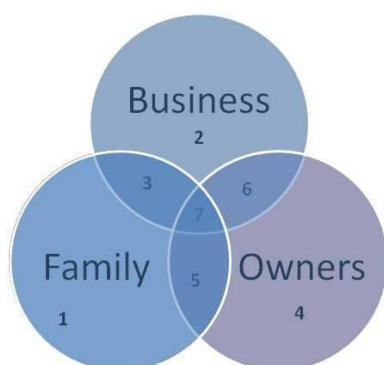


Figure 2.2: Family business: a more complex view

⁶ "Emotional equity" refers to the psychological assets and resources of the firm, in particular the positive feelings, attachments and commitment that family members and employees have towards the firm and promoting its success.

An alternative way of expressing essentially the same idea is to consider the stakeholder interests in the family firm. Stakeholder interests in family businesses are summarised in Table 2.2.

Table 2.2: Stakeholder interests in family business

STAKEHOLDER GROUP	INTEREST
Family	Family cohesion and harmony
Owners	Wealth preservation and growth
Management	Business growth
Individuals	Personal growth and identity

Source: Author

However, in the family setting, the same people can be members of several stakeholder groups, that is, they can have a number of different interests in the business. For example, some family members will have ownership and individual stakes in the business as well as interests in preserving family cohesion and providing long term opportunity and stability for their children.

2.6 Differences between family and non-family Firms

Family business behaviour is influenced by the objectives of the family as well as those of the business. Carlock, quoted by Karabell (2009), argues the major distinguishing features of family businesses are that they hold a long-term perspective and are driven by values. Decisions tend to be made on the basis of what is good for the family and aligns with their values. The notion of “stewardship”, the desire to leave the family business in a better state than it was when you took it over, provides a long-term focus for business decisions and helps to avoid the pitfalls of short-termism (Carlock and Ward, 2010). One obvious way in which family values affect behaviour is in the desire to employ family members within the business. In examining dimensions of firm size, including number of employees, Daily and

Dollinger found that independent manufacturing businesses with fewer than 500 employees were significantly larger⁷ in non-employment terms than family-owned and managed businesses. Thus family firms in this group tended to have larger numbers of employees, as well as providing employment for family members. However, it is possible that this tendency may be less marked in family firms with over 500 employees. Family firms, particularly the larger ones, provide jobs for people outside the family as well as for family members, and this leads them to become more profit-oriented and reduces the tendency towards sacrificing potential profit to pay family members beyond the level which a public (profit-oriented) company might do. In a world of rapid development of modern technology, the emergence of new, fast growing industries and globalisation, the survival of family firms depends on them applying robust competitive strategies to help them adapt and survive. Such strategies may not be consistent with the traditional role of some family firms in generating (over-) employment for family members.

Cromie et al. (1995) examined the differences between family and non-family businesses in Britain and Ireland. The dimensions of difference examined included demographic, ownership arrangements and management structures. The study concluded that family businesses were, on average, smaller in terms of employment and sales turnover. Non-family firms tended to be more professionally managed in terms of their strategic and day-to-day decision making than family businesses. On the other hand, Westhead and Cowling (1998), in their study in the United Kingdom, found no significant differences in either employment or sales revenue size between family and non-family businesses.

Schwass (2005) argues that family businesses differ from other corporate forms along ownership dimensions which he calls “shareholder proximity” and “shareholder identity”. Proximity refers to how close shareholders are to the business whilst identity refers to how closely shareholders share the values of the business. Proximity and identity are (as is

⁷ In terms of total number of employees and providing employment for family members. In the past, some family businesses predominantly aimed to provide employment for family members. However, the situation has now changed and many family firms are trying to encourage and obtain qualified people from outside the family.

usually the case) sources of both opportunities and threats to the business. These can be summarised in Table 2.3 below.

Table 2.3: Family businesses: proximity and identity

This item has been removed due to third party copyright. The unabridged version of the thesis can be viewed at the Lanchester Library, Coventry University

Source: Schwass (2005)

The threats tend to grow as the business passes through the generations. One reason for this is that the number of shareholders tends to grow geometrically. The “distance”, psychologically, emotionally and in time, between some family shareholders and the business tends to grow giving rise to competing interests which are difficult to resolve. For example many third generation family members may only be “interested in the money”, that is pursue short term monetary gain at the expense of the long run survival of the business.

Other studies have investigated the differences between family and non-family businesses from other perspectives, for example in terms of strategic behaviour (Donckels and Fröhlich 1991; Donckels and Lambrecht, 1999; Littunen and Hyrsky, 2000), management and ownership imperatives (Westhead et al., 2001), customer service (Lyman, 1991), organisational buyer behaviour (File, 1995), management of human resources (Astrachan

and Kolenko, 1994; Habbershon and Williams, 1999) and attributes of owners/managers (Littnen and Hyrsky, 2000). Some of the results are shown in the following sub-sections.

2.6.1 CEO and firm leadership characteristics

Gallo (1995) noted that CEOs of family businesses are, on average, older than managers of non-family businesses. They also tend to remain in their jobs much longer than their counterparts in non-family firms (Gersick et al., 1997). With regard to the possession of an academic degree, the results of work by Cromie et al. (1995) reveal that management teams in family and non-family firms have a very similar profile. The question is whether or not CEO age and tenure have any implications for firm behaviour. Levesque and Minnitti (2006) argued that a CEO's entrepreneurial efforts will decline as they get older, irrespective of the type of firm. On the other hand they also suggested that longer tenure, which goes with increasing age, brings the experience and "comfort" which will allow CEOs to pursue entrepreneurial strategies with better risk management. Alternatively, it may be that long-tenure dominant leadership is less likely to be challenged by new ideas and practices from other managers (Zahra et al., 2004).

The question is of particular interest where first generation control is concerned, that is where the CEO is (most likely to be) the founder. One line of argument suggests that, as family leaders get older they become protective and follow conservative strategies in order to ensure a legacy to the next generation (Zahra et al., 2000; Schulze et al., 2001). On the other hand, long tenure can give CEOs the freedom and confidence to pursue long-term aims (Aldrich and Cliff, 2003; Zahra, 2005). In a study of 232 family firms in the US, Kellermans et al. (2008) did not find any significant relationship between CEO age and entrepreneurial behaviour. Similarly tenure did not have any effect. However, such aggregate results cannot be used to predict behaviour in a given instance and are, in any case, based on a balance of positive and negative effects which will vary case by case. Such effects can, provided family firms are aware of them, be managed to positive effect.

2.6.2 Risk-taking behaviour

A frequent contention in the literature is that family firms may exhibit more risk-averse business behaviour. On the other hand, the counter suggestion is also sometimes advanced,

that is that family firms will be less conservative. A more sophisticated hypothesis is that the tendency towards risk-aversion, or otherwise, will vary over the life cycle of the firm (Balinga and Hunt, 1987). Donckels and Fröhlich (1991) found that family businesses are more resistant to change, more conservative, less innovative and less growth-oriented compared to non-family firms. Shepherd and Zahra (2003) suggest that, over time, some family firms become resistant to change and follow conservative strategies which limit growth and long-run profitability. However, this may be due to the long tenure of CEOs associated with the passage of time, rather than family firm organisation itself (Zahra, 2005). Chen et al. (2009), in a study of US family firms, suggest that conservatism is linked to the position of the CEO. Where the CEO is a family member, and particularly when the CEO is the founder, the firm is likely to adopt less conservative policies. This is potentially because other family and board members will be less inclined to monitor the CEO. Where the CEO is not a family member, the family has greater incentives and the means to monitor CEO behaviour and decisions.

However, a study of Swedish firms by Naldi et al. (2007) suggested that family firms are less prone than non-family firms to take risks while engaged in entrepreneurial activities. Reid et al. (1999) suggest that family-first firms are more rigid and risk averse than business-first (family) firms. More recently, Pistrui and Fahed-Sreih (2010) researched the influence of Islamic thought on Arab business values. They found that, in the Middle East, family businesses seem to lay greater emphasis on long-term relationship building and investment strategies than other firms.

2.6.3 Capital structure

Bopaiah (1998) found that lenders tend to provide more facilities to family businesses compared to non-family firms, which could be due to family-owned businesses having a larger share of insider equity in their capital structure. Hence, they are likely to be relatively more conservative regarding investment choices. On the other hand, many owner-managers of family firms would like to keep the shares within the family so as to avoid external debt and equity financing (Dunn and Hughes, 1995). Furthermore, according to Poutziouris et al. (1997), family businesses may prefer not to discuss financial issues with outsiders. This tendency is reinforced by lower disclosure requirements for family firms.

The ways in which family firms deploy capital may also differ. Levie and Lerner (2009) report results from a comparative sample of 577 UK firms. The results showed that three behaviours, adverse selection⁸, opportunism and niche marginalization⁹ were more prevalent amongst the family business owner/manager group. However, the potential performance disadvantage resulting from such sub-optimal behaviour was offset by advantages elsewhere, particular the ability to exploit social capital and “familiness” (Habbershon and Williams, 1999).

2.6.4 Management style

Family and non-family businesses tend to have different approaches to internal management matters. Lyman (1991) notes that managers in family businesses are more dependent on personal approaches and do not favour formal written policies. In addition, formal and written-down planning is less common in family business (Chaganti and Schneer, 1994). Westhead (1997:128) stated that family firms are

...significantly less oriented towards planning-related issues and that they use less formalized management information systems to support decision making...

De Lema and Durendez (2007) surveyed 693 family and non-family firms to identify management practices. Their findings showed that family firms were more likely to use straightforward and visible financial management techniques such as cash budgeting, to give less emphasis to strategic planning and to downplay the role of human resource development as source of competitiveness.

Venter (2002) studied small and medium-sized family and non-family businesses in South Africa. She considered managers’ personal attitudes and their influence on the firms and their progress. Venter concluded that managers in non-family business may be expected to focus on shorter time horizons, be less personally influenced by business failure, show more

⁸ Adverse selection will arise because the family know more about the family firm than do outsiders. This may result in lenders being more wary of lending to the family firm than they might otherwise be. Overall this could result in potentially profitable opportunities being foregone.

⁹ Niche marginalization is survival in relatively unattractive niches that need only low levels of human capital but relatively high effort for the reward extracted. This is likely to occur with smaller family firms.

career mobility and be motivated more by traditional personal reward, whilst managers of non-family businesses feel, in general, less secure than members or managers of family businesses. On the other hand, she also noted that family businesses have more centralised decision-making processes and control systems, although this centralisation usually changes from generation to generation. The position of a family member in the family business will impact on his/her position in the family. Those who are respected in the business are generally also well respected in their family. As a result, personal family matters will often mix with business arrangements, including decision-making processes.

2.6.5 Exploiting new technologies

Ogbonna and Harris (2005), in a longitudinal study of a UK family business, found a number of factors which inhibited both the adoption and implementation of information technology. Bruque and Moyano (2006) in a study of Spanish family businesses reached similar conclusions. Whilst there were a number of facilitating factors, for example the growing professionalization of family firm management and the drive to adopt systems, for example in the quality improvement arena, which are IT dependent, there were also offsetting inhibitors such as the tendency for new technology implementation to upset existing hierarchies and power structures and the difficulty of hiring qualified staff. Personal perceptions of general managers play an important role in their disposition towards new technologies. Often, when top executives in family businesses advance in age, they tend to decrease their eagerness to change or implement new technologies due to an increase in the level of risk aversion (Ogbonna and Harris, 2005).

2.6.6 Internationalisation and external influences

Given the revolution in technology and communications, many family businesses may find it difficult to grow without operating at the international level. In a series of studies using longitudinal Australian data, Graves and Thomas (2004; 2006; 2008) identified a number of factors which impacted on the international growth of family firms. Smaller and younger family firms were less likely to internationalise than their non-family owned counterparts. However this difference did not persist over time, and older and larger family firms were as likely to internationalise as other firms. Older and larger family-owned firms who are committed to innovation and networking and have an orientation towards growth are more

likely to internationalise their operations. Nevertheless, family firms may lag behind in their propensity to internationalise due to a deficit in their managerial capabilities. Successful non-domestic growth was seen to require a level of family commitment to internationalisation together with the financial resources to accomplish it and the ability to commit and use those resources effectively. In a major study of 1,132 SME's in eight European countries, Donckels and Fröhlich (1991) found that family firms tended to be more inwardly directed and less active in international markets. Their strategic behaviour also tended to be more conservative. Gallo and Sveen (1991), studying Spanish family firms, showed that the family's international characteristics and experience and the ability to take advantage of them were key factors in influencing the extent of internationalisation. However, Gallo et al. (2004) found that most family business firms lack trust in potential external partners and consequently do not pursue alliances with other organisations to the same extent as the non-family businesses. They also found that family business firms whose ownership is shared with non-family members or institutions tend to develop the ability to trust other organisations, and are consequently able to seek strategic alliances with other companies when the need for internationalisation arise. More recently, Claver et al. (2009) demonstrate that the family's long term vision and the presence of non-family managers marked out family businesses with a propensity to internationalise¹⁰. Donckels and Fröhlich also suggest that family businesses are less involved in socio-economic networks and cooperative activities with other businesses. Leach (1991) also argues that family members are less likely to seek the advice of outsiders.

2.7 Advantages of family businesses

Family businesses tend to be less bureaucratic and less impersonal than other types of businesses. In family businesses responsibilities and control are aligned and clearly defined by the owners. In addition the decision-making process is limited to one or two key individuals. This makes decision making a quicker and less costly, in terms of managerial time, process.

¹⁰ As always, care must be taken not to infer a direction of causality here. Appointing non-family managers does not lead to successful internalisation. However, family firms who have successfully entered international markets are more likely to have long term visions and appoint non-family managers to important positions in order to strengthen their collective management capability.

Key elements of characteristics of family businesses include trust, shared customs and values and shared vision, opportunities for personal growth, social progress, job security and autonomy (Hodgetts and Kuratko, 1998), and the absence of external intervention and commitments to shareholders. Steier describes trust as “a particularly important source of strategic advantage” for family firms (Steier, 2001:353). However, trust needs to be built and sustained; in particular it may deteriorate as the firm grows and comes under new pressures (Sundaramurthy, 2007). Family businesses also have a greater independence of action and taking decisions. Commitment, personal relationships, loyalty and a stable culture support the fact that family business can be a more solid and reliable structure than non-family business. Furthermore, the members of family business share the same history, identity and common language. This will enhance the consistency between the members and increase firms efficiency and effectiveness (Ward, 1987; Venter, 2002).

Greater flexibility of family members in devoting time to work and in use of money could lead to a competitive advantage for family businesses as it helps them to adapt more quickly and easily to different and changing circumstances (Venter, 2002). Experience and knowledge passed from one generation to another (succession), starting in very early youth, is an essential feature of successful family businesses (Donckels and Lamprecht, 1999), although it can also ultimately lead to a great weakness if succession fails.

Where implicit labour contracts between a company and its workers are the norm (see, for example, Zahavi, 1988), then family firms may have an advantage. The reasons may be as follows. Controlling families are likely to have a longer time horizon than do professional managers. The fact that the controlling family has a large ownership stake implies that it can safeguard the implicit labour contract, and thus workers’ interests, against the “greedy demands” of short-term profit-oriented minority stockholders. Roe (2000; 2003) indicated that family firms are more effective at dealing with workers’ pressure. Roe’s main argument is that weakly monitored managers will not fight as strongly for shareholders as will strongly monitored managers. Weakly monitored managers will too easily give in to workers’ pressure to avoid conflict, because they do not pay for the concessions they make to workers, but “they take a great deal of heat for resisting [labor pressure]” (Roe, 2003).

However, the core strategic advantage of family business may derive from the nature of the family itself. The potential weaknesses of family firms in other areas (see below) may be offset by the greater social capital that family firms possess. The unique form of social capital that family firms can develop has been called “familiness” (see Habbershon and Williams, 1999) and “family capital” (see Hoffman et al., 2006). Familiness arises from the integration of family and business life. Family capital has the property of being unique to the family that develops it. Family capital is not a property of the individuals in the firm but of the quality of the social relationships between the individuals comprising the firm. Like “team spirit” in competitive sports, it can counteract individual weaknesses through the willingness of individuals to put the needs and success of the group above their own. Such reciprocal altruism and collective trust can generate competitive advantage. For example, it may be that the family itself has a trusted brand identity which enhances customer trust in a firm. The family firm may have a distinct corporate culture which promotes loyalty among employees and community support. Such competitive advantages may be particularly prevalent in societies and cultures where family life is regarded as being central to well-being, for example those in Gulf countries.

2.8 Problems facing the family business

Conflicts in family businesses can happen quite often as business and family objectives diverge. According to Daily and Dollinger

...the problem is that family businesses have a built-in Achilles' heel. Two systems interact – the family and the business – and these two systems are not necessarily compatible. On the contrary, examples of destructive family feuds are not hard to find... (Daily and Dollinger, 1993:60).

Conflict in family businesses is an important issue that could lead to shortening the business life, researchers agree that success of family business depends on the successful management of conflict (for example, Baxter, 1994; Sorenson, 1999; Davis and Harveston, 2001; Martin, 2001). Large family businesses may be more complex than other businesses of the same size due to the need to balance family, individual and ownership interests. On the other hand keeping ownership and control in family hands can result in a coherent and supportive environment within which the business can be developed. Complexity can be

turned into a source of competitive advantage if the competing interests of the key stakeholder groups can be constructively aligned.

A number of different factors contribute to the lack of longevity of family businesses. Venter (2002) summarised the most important problems faced by the family business as follows:

- Survival from one generation to the next and the linked change of leadership.
- The nature of work within the family business as most are small and medium sized requiring hard work which often does not give time to members and workers to devote to family.
- Ineffective communication might be an important barrier in family businesses working successfully. This could be result of the conflict which might happen between the family members and influence negatively on family business progress.
- Ineffective communication can occur between family and non-family members (non-family managers can often feel like outsiders) or as a result of over-reliance on informal systems.

Other international and national issues facing family businesses include increased external and internal competition which leads to intense pressure on family businesses to adjust to market needs and wants; the negative influence of legacy (inheritance) taxes; relationships with trades' unions; and changes in governments, legislation and policies especially in developing countries (Neuebauer and Lank, 1998; Venter, 2002).

2.8.1 Proliferation of family members

The number of family members normally grows with time. In consequence business management practices will need to change and the possibility of conflicts and disputes becomes stronger and more frequent. Some families put personal concerns before business concerns instead of trying to achieve a balance between the two. It is important to understand that the family's strong emotional attachments and overriding sense of loyalty to each other creates unique management situations. For example, solving a family problem, such as giving an unemployable or incompetent relative a position in the firm, ignores the company's personnel needs, but meets the needs of family loyalty. Another

example of conflict of interest occurs when business owners feel that giving children equal salaries is “fair”. Siblings who have more responsibility but receive the same pay as those with less responsibility usually resent it.

The vital challenges of surviving business family firms do not usually emerge during the ownership of the first generation because a state of agreement is easy to reach due to the small number of family members. However, with time, the number of family members involved in the business increases and ownership is often diluted, leading to a greater possibility of conflicts due to differing objectives, attitudes and intents of family members. This threatens the survival of the family firm as a family firm. For example, Birley (1986) estimated that only 30 percent of family firms in the United States survive into the second generation and Morris et al. (1997) estimated that only about 15 percent survive into the third generation¹¹.

The larger number of family members resulting from generational proliferation can lead to succession problems, quarrels in the family leading to problems in taking decisions, wholly irrational division of family assets among members, crucial pieces of businesses falling into the hands of incompetent managers, lack of a conceptual framework to serve as a blueprint for the future and so on (Ward, 1988).

As long as the founder of the business is in place; the family business is relatively stable. Once the business moves with time into newer generations, it gradually becomes destabilised as a consequence of “triggering events” such as the decision to bring a family member into a senior position or the founder’s decision to disengage. The result can be ambiguity, confusion and conflict among the family members and professionals employed by the firm. The subsequent adaptation process usually brings with it management problems and chaos. Beckhard and Dyer (1983) indicated that successful adaptation is influenced both by the conditions within the firm (for example, state of maturity, economic health) and family dynamics (for example, closeness of family, interdependencies among family members, sibling rivalries, financial conditions of family members). Lee (2006), in

¹¹ Although, of course, the business might survive in a different form, for example as a public company.

studying transitions from first to second generations, found that family cohesion and family adaptability were positively related to the commitment, job and life satisfaction and the likelihood of staying in the business of second generation family members working within the business.

2.8.2 Succession issues

The discussion above clearly leads to the conclusion that succession is a major issue for family businesses. Chrisman et al.'s (2005) systematic review of 190 published articles on family business found that succession dominated the research agenda. Succession can be the spark which ignites family business conflict and surfaces the tensions inherent in mixing family and business. Despite the apparent obvious nature of this observation, many family businesses do not have a succession plan in place. According to the PwC Family Business Survey 2010/2011, 48% of Middle East family businesses do not have a succession plan and 62% do not have a risk-management strategy in place to prepare for the possible death or incapacitation of a key manager or stakeholder (BI-ME, 2010b). Of course, it may be that succession issues may be dealt with according to the prevailing cultural norms which attach to succession and inheritance; for example in many countries it might be implicitly assumed that the eldest son might naturally take control. However, empirical evidence suggests that it might make sense to consider a wider pool of candidates to take on the CEO's job, including outsiders. Dorgan et al. (2006) suggest that overall managerial quality in family businesses in different countries declines with the proportion of entities where the eldest son took over as CEO.

Handler (1994) provides a comprehensive review of research into family business succession. She emphasises that succession is a process rather than an event. Whilst there are a number of different ways of conceptualising the process (see, for example, Longenecker and Schoen, 1978; Churchill and Hatten, 1987), the common elements involve a pre-handover training and development, a mentoring/coaching/apprenticeship stage where the existing CEO and the nominated successor work in partnership, a managed and probably phased power transfer stage and a post-transfer stage. In this latter stage it is important to understand the needs of the ex-CEO as well of those of the new one. Tatoglu et al. (2008), in a study of 408 Turkish family businesses, also stress the importance of the

post-succession period in promoting the success of intergenerational business transfers. Handler (1990) characterises this as “mutual role adjustment...between the founder and the next-generation family members”. Successful succession transitions require that three elements work in harmony. The business needs to be in a healthy condition and transition needs to be accomplished gradually in a planned and open way; there must be a high degree of trust between family members built on sharing superordinate goals and having well-tried mechanisms for resolving conflict, and the board of the family firm should have the necessary expertise to manage any problems which might occur within the business and the family.

Whilst succession is a challenge to family businesses, it can, like other challenges, be successfully managed. In a study of 860 family businesses, Royer et al. (2007) found that family members may make the most suitable successors given their specific, usually tacit, knowledge of the business and the family, and if family cohesion is good. It is important, however, not to regard all intergenerational transfers in the same way. Molly and Laveren (2010) reported results from 152 small to medium sized family businesses. Their main findings were that transfers from first to second generations were accompanied, on average, by reductions in performance in terms of growth and increases in debt although profitability was not affected. Transfers between second and third generations had no negative effects on performance.

2.9 Family firm performance

There is little evidence that family businesses routinely underperform other types (Westhead and Howorth, 2006). Gorriz and Fumas (1996) studied SME companies' performance in Spain and found that family business effectiveness and efficiency (value added per worker) was better than that of non-family business. Gallo and Estapé (1992) and Coleman and Carsky (1999) found that family businesses have a higher ROE and ROA than non-family firms. Davis (1982) suggests that family businesses illustrate higher levels of interest in, and commitment to, enhancing and increasing business growth and success. On the other hand, Gallo (1993) found that family businesses show slower growth than non-family business. This conflict between desire and results could be due to the conservative nature of the management of family firms and their desire to keep the business under

control. However, Gallo's results are at odds with those of more recent studies which suggest that family business may grow faster and be more profitable than other businesses (see, for example, Anderson and Reeb, 2003; Villalonga and Amit, 2006). Family businesses may perform even better if the founders still take an active role in the running of the firm (Lee, 2006).

In his study of "excellent" family business from a number of countries¹², Schwass (2005) found that the key common element shared by successful family businesses was an orientation towards growth. Successful growth strategies were based on the strengths of family businesses drawn from their structures, shared values and emotional attachments of family members to the business (inherent strengths) and so there was a generic element. The major limiters to growth, which successful family businesses overcame, was a tendency towards conservatism and tradition and the potential for regular crisis at the time of generational shifts in influence and control. Succession needed to be planned for well in advance (family roofs needed to be mended when the sun was shining) and future leaders systematically developed.

Much discussion of the effect of different forms of firm ownership on performance relies on the notion of differential agency costs (see, for example, Chrisman, Chua and Litz, 2004). The idea of agency suggests that managers who are not also owners of the firm will not be as diligent as owner-managers in running the organization. This gives rise to the need for owners to monitor the behaviour and performance of managers to ensure that they are acting in the owners' interests rather than their own. This is often referred to as the "principal-agent" problem and creates additional costs (known as agency costs) of ensuring that managers act in the best interests of owners. In "true" family firms, where family members both own and manage/direct the firm, agency costs should be lower. In a study of 1,141 small family and non-family firms in the US, Chrisman et al. (2004) found evidence to

¹² Excellence was identified in terms of survival (at least three generations), financial performance, effective governance, good corporate citizenship, global reach and an effective balance between maintaining its roots (tradition) and innovation. These businesses were compared in an attempt to identify any common themes underlying their success, whilst recognising that all businesses are different and that sustainable competitive advantage will usually be based on a business distancing itself in some way from other businesses in the same market(s).

suggest that the overall agency problem was less marked in family firms than similar privately-held non-family firms. However, the more specific question is whether or not the principal-agent problem is likely to be more or less important in periods of crisis compared to times of easier business conditions. In a difficult business climate cost efficiency is at a premium and agency costs will be relatively more important. On the other hand it may be that the agency costs problem is lessened in periods of crisis if managers have either less ability or desire to act in their own interests rather than those of the owners. Nevertheless, the agency cost equation will, in principle, always be in favour of family firms.

The empirical evidence has been largely based on publicly quoted firms. Audretsch et al. (2010) make the distinction between ownership, control and management in family firms. Their results show that family control is beneficial for all stakeholders, while neither family ownership nor management influences financial performance. Lee (2009) finds that financial performance of family firms is better when founding family members are still involved in management. Moustafa (2005) found that, in the UAE, (unlisted) owner-controlled firms outperformed (listed) manager-controlled firms. These findings contrast with the results of Filatotchev et al. (2005) who analysed the performance of 228 firms listed on the Taiwan stock exchange and found no relationship between family control and financial performance. On the other hand ownership of shares by institutional investors, particularly foreign ones, was associated with better performance. In a more recent study, Chen et al. (2011) examined the effect of family involvement on family firm performance. They defined a number of types of family involvement; family member directors, family representative directors, family managers and family CEO's. They found negative relationships between the presence of family directors and firm performance, which was more marked in the case of family member directors rather than representative ones. There was no relationship between firm performance and family ownership and CEOs. Family managers were negatively associated with firm performance.

Overall, therefore, the evidence is mixed. However,

- There is no compelling case for arguing that family firms perform worse than other organisational types

- There are many dimensions of performance that need to be considered; financial performance is not the only one
- Most evidence is gathered from comparisons of quoted companies and we need to be careful about generalising to unquoted companies (the focus of study in this thesis)
- The form of family involvement may be critical
- It is important to consider social, and particularly family, capital as well as human and financial capital

2.9.1 Performance in times of crisis

The discussion above focused on internal sources of crisis events. However, it is also important to ask whether family firms are more or less resilient than other forms of business in times of external threat. Recent events in global financial markets have posed the question as to what types of firms may be better able to cope with, and survive, the effects of rapid changes in economic and financial conditions. Of particular relevance here is the relative ability of family firms to withstand rapid shocks and recession. This requires us to consider the relative stability of family firms rather than focusing on short-term financial performance.

Family businesses often have concerns and aims which go beyond the purely financial, for example maximizing profits, and business transactions are rarely conducted solely for economic motives. For family firms maintaining the trust of family members and the community within which they operate is very important. Altruism and commitment are other important attributes of family firms which can, potentially, enhance (family) firm performance (Davis, 1983). The presence of “family values” in the conduct of business can be a strong force for business continuity and stability (Atonoff, 2004). Such values temper the pursuit of profit for its own sake and can overrule purely economic considerations in times of crisis. In successful family firms these values are implemented, maintained and developed by a committed and cohesive ownership group (the family).

The role of trust in family firms has been explored and reviewed by Steier (2001). Within a small and close-knit business community such as that found in Abu Dhabi, trust is a very important dimension and the development and maintenance of trust an important source of sustainable competitive advantage. Trust, as opposed to mutual financial or economic interest, is often the fundamental basis for cooperation. One aspect of decision-making based on trust is that partners to transactions may be willing to forgo short-term gains in order to preserve the long-term partnership. Such an approach to business activity may be a very useful automatic defence mechanism in times of difficult trading.

There is evidence to suggest that families tend to take a longer-term view of investment opportunities than other types of owner (Stein, 1989; James, 1999). This may be due to a desire to maintain employment among family members and because they view the firm as an asset to be passed on to future generations. This long-term outlook leads to family firms placing a greater weight on the long run survival and stability of the firm over short-run profitability than might be the case with other forms of ownership. Evidence from the recession in the US in the early years of this century supports this view. A survey by Astrachan and Allen (2003) found that family firms tended to try and keep employment levels stable and avoid the downsizing activities and massive layoffs which were a feature of many US corporations during the period. These results are supported by later work by Lee (2006) comparing the performance of large US family firms with other corporates during the same 2000-2002 recession.

2.10. The development of family businesses

Family businesses need to develop short and long term strategies that will enhance and increase their long term survival chances (Dunn, 1999). This will help them improve and enhance their business development and ability to face future problems by taking into account people factors (i.e. families), and recognising businesses as dynamic entities moving through the change processes of start-up, growth and decline (or re-invention). For family firms, as with all firms, the issues raised by the pursuit of successful growth are many. However, there may be particular areas where the challenges are even more marked than for businesses in general.

When the competing family and business interests are pulled together by incentive structures which result in coherent and consistent action across time (an evolutionary strategy) a strong business model with distinct competitive advantages can result. Schwass (2005) characterises such strategies as “wise growth”. Wise growth successively grows individual family members, that is prepares them for future roles in the business, then gradually grows their roles within the business which then results in the growth of the business. Involving successive generations in the family business should be a natural, evolutionary process rather than a disruptive and uncertain (revolutionary) one.

Dyer (1986) developed a four-phase model, which depicts the stages in the family business life cycle. The four phases are:

- creating the business (when market success and business survival are central)
- growth and development (when estate planning and the distribution of ownership and assets are major tasks)
- succession to the second generation (when conflict between business elements and family elements is characteristic)
- public ownership and professional management (when the family business transitions into professional management and ceases to have the distinctive character of a family business).

However, an important question for this thesis is whether or not the fourth stage is inevitable or can family businesses continue to grow and prosper without having to become public.¹³

Neuebauer and Lank (1998) observe that the family business life cycle model promotes better understanding of the present state of the family, the ownership of the business, and the business itself. A successful model should predict both the transitional and the ‘next-stage’ challenges that could be faced, and should propose practical steps that could be

¹³ Dyer’s fourth stage contains two elements which may not be inextricably linked together. As family businesses grow they will need more resources in terms of capital and human talent. Becoming public may not be the only route to obtaining additional capital. On the other hand recourse to the labour market to fill talent gaps may be inevitable.

considered to minimise future challenges. Ward (1988) developed a model that includes three different life cycles, namely; the business life cycle, the organisational life cycle and the business owner's life cycle. Ward believed that different forces influence the transition of the business through several predictable stages of growth and change each with distinct elements of business and family practice. The forces influencing transition are the following:

- The nature of the business (product type, stage in the life-cycle, market conditions, industry structure etc.)
- The nature of the firm (size, complexity, speed of change)
- Motivation of the family members involved in the business, and particularly the owner-manager
- Family expectations of returns from the business
- Family goals and purposes

The model also identifies three stages of development in the life cycle of family firms. Table 2.4 maps the forces shaping family business onto the stages of development.

2.10.1 Attracting and retaining talent

A critical success factor in today's growing economy is directly related to the capacity of an organisation to attract, select and retain talent. Attracting the right people is important not only for sustaining competitive advantage but also for the continued existence of a business (Barney, 1991; Taylor and Collins, 2000). Bhatnagar (2007), in an analysis of Indian information technology companies, argued that talent has become the key differentiator for successful organisations. Enhancing the ability to attract and retain talent is critical in today's highly competitive environment. Moreover, providing an attractive place to work will enhance employee engagement and motivation, leading to improved company performance (Ronn, 2007).

Some of the largest companies worldwide are family business firms which have survived many challenges such as wars, economic depressions and natural disasters; nevertheless family businesses cannot extend and maximise their strengths without attracting and employing the right employees and talent. In the same vein, the processes of recruiting and

Table 2.4 **Stages of family business evolution.**

	Stage 1	Stage 2	Stage 3
Age of business	0-5 years	10-20 years	20-30 years
Age of parents	25-35 years	40-50 years	55-70 years
Age of children	0-10 years	15-25 years	30-45 years
Stage of business lifecycle	Rapidly growing and demanding of time and money	Maturing	Needing strategic 'regeneration' and reinvestment
Major characteristic of Organizational lifecycle	Small, dynamic	Larger and more complex	Stagnant
Owner-manager motivation (owner's lifecycle)	Committed to business success	Desires control and stability	Seeks new interests, or is semi-retired; next generation seeks growth and change
Family financial expectations	Limited to basic needs	More needs, including comfort and education	Larger needs, including security and generosity
Family goals	Business success	Growth and development of children	Family harmony and unity

Source: Author, adapted from Ward (1988).

retaining talented workers are critical for family businesses as they grow in terms of the scope of activity and geographical location (Klein and Bell, 2007).

2.11 Entrepreneurship in family firms

Founders of family firms are usually entrepreneurs. However, it may be that once the firm is successfully operating subsequent generations of family firm leaders may become more conservative and exhibit less entrepreneurship. Entrepreneurship is inevitably accompanied by significant risk and often leads to failure and poses threats to the continued success, wealth and survival of the firm (Zahra et al; 2000). On the other hand, many researchers argue that family firms which operate in a holistic way are likely to foster entrepreneurship (Zahra, 2005). Some researchers point out that founders may lose their entrepreneurial edge as they get older and become concerned with succession and protecting their legacy. Entrepreneurship is then revived when subsequent generations join the firm (Salvato, 2004).

Kellermans et al. (2008) pose the question of what leads some family firms to be entrepreneurial whilst others stagnate. They consider four “input” or determinant variables of entrepreneurial behaviour; the age of the CEO, CEO tenure, the number of generations involved in the firm and the size of the organisation. Their research sample was 232 family firms from the northeast of the US. Their results suggest that generational involvement is the only strong predictor of entrepreneurial behaviour; CEO age and tenure had no effect (positive or negative). The study also looked at the relationship between entrepreneurial behaviour and employment growth. As the discussion in later chapters of this thesis shows, there is a strong emerging emphasis in Abu Dhabi on the role of the private sector (which is largely composed of family firms) to be both sources of innovation and new business growth and employment. Kellermans et al. conclude that the positive employment growth effects of entrepreneurial behaviour are fully mediated by generational involvement. In policy terms this would suggest that measures which help keep family firms in family hands may have a positive effect on employment growth.

2.12 Family firm governance

There are many different definitions of corporate governance. Some definitions are quite technical and are expressed in economic terms, for example Zingales (2008) defines corporate governance as:

The set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm¹⁴.

Whilst such a definition might be useful to professional economists and does give some hint of why corporate governance may be necessary (ex-post bargaining over quasi-rents) it does not particularly help illuminate the issues for most people.

Shleifer and Vishny (1997) suggest:

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

In the UK the Cadbury Committee (Cadbury, 1999), which was set up in the UK in 1991 to raise standards in corporate governance, gave the following, much more general, definition:

Corporate governance is the system by which companies are directed and controlled

and went on to say:

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals....the aim is to align as nearly as possible the interests of individuals, corporations and society.

Whilst these definitions focus on the formal rules and institutions of corporate governance, attention should also be paid to the informal practices that evolve in the absence or weakness of formal rules. A broader definition of corporate governance, which embraces the more informal arrangements often found in family firms, is the system of rules that

¹⁴ Or, put more simply, the rules under which and profits the firm makes are divided up.

decide the control and management of the corporation and that define relations among the corporation's main participants (Morck and Yeung, 2003).

Thus, corporate governance is about relationships and structures. Most importantly, it is the relationship between a company's management, its board of directors, its auditors, its shareholders, its creditors and other stakeholders. Corporate governance is based on structures through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

The fundamental need for corporate governance in modern corporations arises because those who control the firm (directors and managers) may not always be motivated to, or in practice act, in the interests of other stakeholders in the firm. A particular, but very important, aspect of this gap is the divorce between the rights of shareholders and other suppliers of capital and credit on the one hand, and the operational control, which is in the hands of professional managers, on the other¹⁵. Broader definitions would extend the concept of control beyond that exercised by the managers, the board of directors and the shareholders to a larger number of stakeholders, including creditors, employees and business partners, such as suppliers and the local community. The gap between ownership and control gives rise to what is known as the 'principal-agent' problem. Principals are those who own and set the major direction for the firm and agents are those who manage the operations of the firm. In a perfect world the agents would run the firm in the most effective way possible in order to achieve the principals' wishes. In the narrow economic interpretation this comes down to a fairly simple question: will the managers run the corporation exclusively for the long-term benefit of the shareholders, and what mechanisms can be put in place to ensure this takes place? This is not to say that the majority of agents (managers) or anyone else involved in business are anything other than basically honest people who act in accordance with ethical principles. But some are not. Others may want to act in an honest way but are prevented from doing so by events which overcome them or by

¹⁵ In many books, particularly those written from a western economics point of view, the need for corporate governance is usually defined purely in terms of the separation of "ownership" from "control". However, the broader view taken here is more consistent with the way in which corporate governance has developed in different parts of the world and takes into account the interests of other stakeholders besides owners and managers, critical as those are.

their own lack of experience and ability when things start to go wrong. However, systems of corporate governance are designed to provide a framework for managing companies that embodies best practice rather than relying on individuals' integrity.

There is also some evidence¹⁶ for the suggestion that the implementation of good corporate governance can improve business efficiency. To the extent that boards of directors can exercise influence over the internal policies and practices in a firm as they affect shareholder wealth, then good corporate governance can help to eliminate unnecessary costs or diversion of organizational resources into activities which might reduce long-term profits. However, we must avoid jumping to the conclusion that the golden road to riches lies simply in implementing good corporate governance. A more likely interpretation of the evidence would be that companies that implement good corporate governance of their own volition are likely to be well managed in other ways as well.

Jensen and Meckling (1976) and Shleifer and Vishny (1997) argued that focused corporate ownership leads to better corporate governance. In addition, La Porta et al. (1999) pointed out that the role of leading families in corporate governance changes greatly across developed (and emerging) free market economies. Large companies in the USA and UK are operated not by families, but by professional managers. On the other hand, most large firms in many other countries are organised into business groups controlled by a few wealthy old families.

More recent research by Schwass (2005) revealed that successful family businesses had strong corporate governance structures with a degree of independent (that is non-family) influence, detailed and transparent succession arrangements and dispute resolution procedures and evolving structures which were future oriented. The central principle for balancing family interests and external involvement seemed to be "influence but don't interfere". The (highly successful) family businesses studied shared a forward looking

¹⁶ Overall, as is often the case, the evidence is quite mixed. Some studies come out quite strongly in favour of a positive relationship between good corporate governance and firm financial performance. Other research suggests that the relationship is weak or non-existent. However, on balance, the practitioner and research evidence seems to suggest a positive link.

attitude towards corporate governance with strong elements of independent influence and less fear of transparency and a demonstrated desire to be good corporate citizens.

Corporate governance is not simply an issue of the relationship between shareholders and management, although it is the central element. In some countries, governance issues arise from the power of certain controlling shareholders over minority shareholders, this is a particular issue that can arise in family firms. Corporate governance systems are increasingly recognising the need to balance the wishes and needs (stakes) of different groups involved or affected by the activities of the company. Family firms can give rise to particular corporate governance problems. Schultz et al. (2001) pointed out that agency problems can arise between family members which affect the whole firm.

This discussion leads to the idea that there is more than one model of corporate governance. The most obvious distinction is between approaches which emphasise the rights of shareholders and those which take a more inclusive view of stakeholders' needs. UK law makes it clear that the shareholders are the owners of the company and that a company's board of directors is required to advance the interests of the shareholders as a whole. In Europe, laws and policies realise that companies have the objective of advancing the interests and stakes of other persons or groups beyond the narrow category of shareholders. Such persons or groups, who might comprise employees, suppliers, creditors, civic organisations and the community at large, are usually referred to as "stakeholders." As a result, these countries are said to have a "stakeholder model" of corporate governance. Their prevailing legal tradition is that of the civil law (Salacuse, 2002).

However, the history of corporate governance is predominantly a western one and an obvious question to ask is whether or not western models are applicable everywhere, that is good corporate governance is the same wherever we find it. The alternative view would be to recognise that cultural differences may be important in both influencing both the need for corporate governance, in general and in particular aspects of it, and the way in which corporate governance practices emerge and are implemented.

2.12.1 Family governance

It is the unification of ownership and control that distinguishes family governance. The degree and nature of ownership required to establish effective control will depend upon the institutional context in which a firm is located. In some contexts, effective control may require a supreme majority of voting stock to be concentrated in the hands of the family. This is the case in the UAE where the requirement is for the majority of shares to be held by the immediate bloodline of the founder. Multiple classes of shares are not permitted and strategic control of a firm's assets through the establishment of pyramids and cross-holdings (Claessens, Djankov and Lang, 2000) or other means is not allowed.

These property or control rights are a defining feature of family governance due to their impact upon incentives, authority, and relative freedom from accountability to third parties. In the UAE, this simple scheme of unification of ownership and control vests organizational authority into the hands of the entrepreneur and his immediate family. Such governance systems tend to generate three dominant tendencies or “propensities” that have been identified as parsimony, personalism, and particularism (Carney, 2005).

2.12.1.1 Parsimony

The tendency towards parsimony arises from the fact that family firms make strategic decisions which involve the family's personal wealth. The key assumption here is that people are more prudent with their own, as opposed to "other people's", money¹⁷. The classic agency problems of ensuring that owners' and managers' interests are aligned are eliminated when owners are managers and owner-managers' interests in investing in growth opportunities and risk-bearing are one and the same. This interest alignment may be weakened when numerous family members hold a stake in the firm, but, relative to other forms of governance, the unification of ownership and control reduces the tendency toward opportunism, endemic under separated ownership and control, necessitating costly monitoring and incentive arrangements between owners and managers (Jensen and Meckling, 1976).

¹⁷ Until recently many large Abu Dhabi family firms still existed in unlimited liability form. This naturally reinforces the tendency towards parsimony. It also, in Arab culture, reinforces trust between parties to business transactions.

A controlling family's direct claim on its firm's profits (surpluses over costs) usually creates an incentive to minimize costs, and to closely monitor its management, making it difficult for managers to divert resources into activities which do not generate additional value for the business (Anderson and Reeb, 2003). Similarly, family firms possess a strong incentive to assure capital is deployed sparingly and used intensively and that indirect production costs are tightly managed (Brickley and Dark, 1987). The alignment of incentives that simultaneously reduces agency costs and motivates efficiency (Durand and Vargas, 2003) can be labelled parsimony.

2.12.1.2 Personalism

The unification of ownership and control concentrates and incorporates organizational authority in the person of an owner-manager or family. Family business members may operate under fewer internal constraints than might be present in other types of firm as they may create less bureaucratic structures than those needed to limit managerial authority and monitor managerial decisions in non-family firms. Owner-managers, particularly in the UAE, are less subject to external constraints relating to accountability, disclosure and transparency. Even where there are other significant (minority) investors in the firm, statutory requirements for minority shareholder protection are weak and concentrated family ownership allows owners to keep arm's length investors' influence at bay if they so wish (Morck, Shleifer and Vishny, 1988). In other firms the structure of authority is relatively diffuse, impersonal, and vested in specific roles rather than the people holding them. In the family firm the personalization of authority allows the family to project its own vision onto the business (Chua, Chrisman and Sharma, 1999).

2.12.1.3 Particularism

Particularism follows from the personalization of authority and stems from the tendency of the owner-managers to view the firm as "our business" (Demsetz and Lehn, 1985). Owners hire professional managers for their expertise, and they are expected to employ rational-calculative decision criteria in their capacity as managers. Managers in family-owned firms are also expected to employ rational-calculative decision criteria, but family control rights permit the family to intervene in the management of the firm to substitute other,

"particularistic" criteria of their choosing. Such criteria may be embodied in the founder's vision for the firm and the role of the firm in projecting the family's values, status and political and social position. Families may employ decision criteria based upon altruism or the desire to maintain family cohesion. However, such tendencies may run against the tendency towards parsimony. For example, Palmer and Barber (2001) found that the acquisition strategies of owner-managed Fortune 500 firms in the 1960s were influenced by goals of improving their social status. In addition, owner-managers are free to deploy their wealth in pursuit of non-economic goals (Chrisman, Chua and Zahra, 2003). On the other hand, parsimonious tendencies may prevail. Atkinson and Galaskiewicz (1988) found that family-owned firms donate less to charity than their managerially controlled counterparts¹⁸.

2.12.2 An Islamic Model of Corporate Governance?

Given the rise of Islamic finance around the world and the growing global importance of businesses based in Islamic countries, it is reasonable to ask whether or not there is a distinctively Islamic model of corporate governance. Islamic economists tend to argue towards a stakeholder model of corporate governance. There are two main threads to this argument. Firstly, Islamic culture tends to emphasize the notion of equitable treatment, thus protecting the rights of all parties to business activities. This seems to support the stakeholder-centered model in which the governance style and structures protect the interest and rights of all stakeholders rather than just shareholders.

Secondly, the concept of decision making by consultation is embedded in Islamic cultures. The practice of Shura is not an option but it is rather an obligation. The practice of Shura provides for the widest possible participation of the stakeholders in the affairs of the state including corporation, either directly or via representatives. If it is followed in the business sector and the opinions of all stakeholders duly recognized in decision making, then there may be little need for direct representation of all stakeholder groups on company boards.

¹⁸ Although this result was based on a study of US firms. In Islamic countries the practice of charitable giving (zakat) is a religious requirement. However, this is usually interpreted as an individual's responsibility and corporate giving may be less evident.

2.13 Why do family firms fail?

This thesis investigates survivor family businesses in Abu Dhabi. However, most family businesses fail early on in their life; keeping a family business going (and growing) across generations is no easy task. The focus on large survivor businesses is a narrow one and it is important to recognise that they may be atypical. Understanding potential causes of failure can shed light on the reasons for success. Westhead and Cowling (1998) identify the transfer of business activities between family members as an important issue concerning family business survival. This issue is clearly recognised especially in small family businesses, as illustrated by Perricone et al. (2001) who show that most small businesses only survive for five to ten years. The relative inability of family businesses to last beyond the first generation seems to be a phenomenon which crosses cultural contexts and economic and business environments (Lee, 1996; Venter, 2002). This will affect not only family members but will also include employees and the surrounding community leading to high economic welfare dependency on the survival of the business (Venter, 2002). Kaslow (1993) pointed out that the reasons for failure of family business are often rooted in the interaction between relationships in the workplace. This idea is supported by Morris et al. (1997) who argue that a particular family conflict can influence a subsequent business decision which, in turn, produces new sources of difference within the family business.

2.14 Summary

The literature on family businesses is very large and diverse. However the bulk of the literature discusses:

- Small firms
- Firms about which there is data available, for example those which are publicly quoted, and a focus on financial performance comparisons
- Firms located in developed economies
- Issues of succession, conflict resolution and family dynamics

These foci contrast with that of this thesis, that is large family firms which are not listed on any public stock exchanges and are located in a transitional economy. Unsurprisingly, there is very little literature which is available which discusses such firms directly. However, the

fundamentals of the family firm remain the same. The successful family firm plays on the strengths of melding the family and business systems into a mutually supportive whole. Success also requires taking a dynamic, long-term view of the firm and planning for the involvement of successive generations. However, as the firm grows and more outsiders are by necessity and desire admitted to the firm, traditional family ties become looser and need to be replaced by more sophisticated and transparent governance systems (Zafft, 2002; Saigol, 2008).

The wider literature identifies many lessons and themes which are directly relevant to Gulf family firms, although they need to be interpreted and applied with care within that particular context (Davis et al., 2000). The centrality of the family in Islamic cultures creates a potentially rich environment for the prosperity of family firms. Gulf family firms also tend to be younger than those in developed countries and may yet have to encounter the difficulties faced by their older counterparts elsewhere. At the same time they may be able to learn from the experiences of successful family companies in other parts of the world. These difficulties are not simply ones of managing family dynamics but are also generated by the changing business and competitive environment within which all firms operate. The question then becomes whether or not family firms are better placed than others to cope with such changes and increase their contribution to wider social welfare.

Chapter 3

Research Methodology

3.1. Introduction

This chapter presents the procedures, methodology and techniques used in this research. The research relies heavily on interviews for reasons which are explained below. However, an important element in this research is the researcher's extensive personal professional experience, over several years, as a director of a major Abu Dhabi family business. In addition to family business responsibilities, the researcher is also a member of the Abu Dhabi Parliament and board member of various public and government held companies and agencies in Abu Dhabi. This experience gives me a strong starting base of knowledge and experience concerning family businesses in Abu Dhabi. It also provides me with extensive opportunities to exchange experience and ideas with others and enrich my understanding of the key issues.

3.2 Research questions

The major question investigated in this research is:

What are the future prospects for the largest family firms in Abu Dhabi?

This question will be explored through examination of a number of sub-questions:

- *How have large family firms developed in the Abu Dhabi economy?*
- *How important are larger family firms within the economy?*
- *What are the challenges and threats, both internal and external, to future development of family firms in Abu Dhabi?*
- *What are the opportunities for, and expectations of, family firms in Abu Dhabi?*
- *What strategies and policies are likely to be needed to ensure the future sustainability of family firms in Abu Dhabi?*

These questions are not framed as testable hypotheses but are posed as a framework for the research; in essence they guide the exploration of the potential place of family firms in the Abu Dhabi economy over the coming twenty years or so.

3.3 Research design

Research is a process. Research designs

...are plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis... (Creswell, 2009:3).

The research design is the plan which underpins this process and enables it to be carried out in a structured way. It ensures that the major components of the research work together towards helping answer, or at least shed useful light on, the research questions.

In broad terms there are three broad types of designs: qualitative, quantitative and mixed methods (Plano Clark et al., 2008; Creswell, 2009). Various research strategies have been suggested by different authors; see, for example, Hussey and Hussey (1997), Zikmund (2003) and Creswell (2009). Creswell (2009:11) defined strategies of inquiry as

...types of qualitative, quantitative, and mixed methods designs or models that provide specific direction for procedures in a research design...

Cousin (2009:31) suggests that

...Qualitative data analysis explores themes, patterns, stories, narrative structure and language within research texts (interview transcripts, field notes, documents, visual data, etc.) in order to interpret meanings and to generate rich depictions of research settings...

This contrasts with quantitative analysis which is used to answer questions about relationships among measurable variables (Cottrell and McKenzie, 2005:3). Mixed-methods approaches to research are those in which the researcher decides to blend or combine both quantitative and qualitative methods (Plano Clark et al., 2008:364).

Creswell compares the alternative strategies of inquiry associated with quantitative, qualitative and mixed-methods designs; these are summarized in Table 3.1.

Table 3.1: Alternative strategies of inquiry

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Source: Creswell (2009:12)

Creswell suggests a number of criteria that affect the choice of the ideal strategy. Perhaps the most important of these is the research problem. If the research problem calls for identification of factors that influence outcomes or attempting to identify and understand the best predictors of outcomes, then a quantitative approach is likely to be the most appropriate. On the other hand, if the researcher seeks to understand a concept or phenomenon on which little prior research has been done, then a qualitative approach may yield the best results. However, when the research problem cannot be understood using one method, qualitative or quantitative, then it merits a mixed-methods design to gain a better understanding of the research problem.

3.3.1 Pragmatism in choice of research design

It is tempting to think of research design as being a rigorous activity which seeks out the best possible theoretical or ideal design in every case. The reality is that constraints limit the choices available and that, often, a more pragmatic approach is needed. The constraints are principally lack of resources, of which the major one is the researcher's time, and, secondly, lack of data. For example, a research project which becomes impossible to manage because the approach taken is too complex or resource-intensive to be undertaken with the

resources available is worthless. A smaller scale project with more limited objectives which is well designed and executed will be of much greater value and may well lay the foundations for successful larger scale research. The doctoral researcher is always constrained in choice of research design by the resource limitations of their own time availability.

In addition, it could be argued that there is neither an appropriate nor inappropriate research design - until it is applied. The important issue is to apply the chosen design effectively (Easterby-Smith et al., 2002). Oppenheim (2000) points out that selecting the best method is a matter of appropriateness and suitability. There is no single approach is always better or superior; it all relies on what are the questions need be answered and what objective need to be achieved.

Creswell (2009:10) argues that research pragmatism

...arises out of actions, situations, and consequences rather than antecedent conditions...

Pragmatism, in the Creswell sense, puts the research question(s) centre stage as being the most crucial element in choice of research design. Pragmatism employs a practical approach, integrating different perspectives to help collect and interpret data.

A major constraining factor in the current research is the lack of data. This is, potentially, the overriding consideration in the choice of research design and data collection methods used. There is very little publically or commercially available data on family firms in Abu Dhabi. This is partially a product of the regulatory environment, partially a cultural issue but most of all a desire by business families to keep family affairs within the family. This preference for privacy also rules out the possibility of using a survey instrument to collect data, even if the strongest confidentiality assurances are given. In any case, the lack of available data even prevents the construction of a sampling frame. In addition the number of firms that come within the scope of this research is small and quantitative methods would be inappropriate. Of course, the scope could be widened to a sufficient extent to permit

meaningful inferences to be drawn from quantitative data, but this would require a quantitative definition of scope in order to identify the research population.

3.4 Research methods

Research methods

...involve the forms of data collection, analysis, and interpretation that researchers propose for their studies... (Creswell, 2009:15).

Bouchard (1976: 402) argues that

... Methods are means to ends, no more, no less. The key to good research does not only lie in choosing the right method, but rather in asking the right question and picking the most powerful method for answering that particular question. Methods are neither good nor bad, but rather more or less useful for answering particular questions at a particular time and place...

Different strategies of inquiry are associated with particular research methods, although not necessarily uniquely. Creswell (2009:15) summarises the major differences between methods of collecting data; these are shown in Table 3.2.

Table 3.2: Major differences between quantitative, mixed and qualitative methods in collecting data.

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Source: Creswell (2009:15)

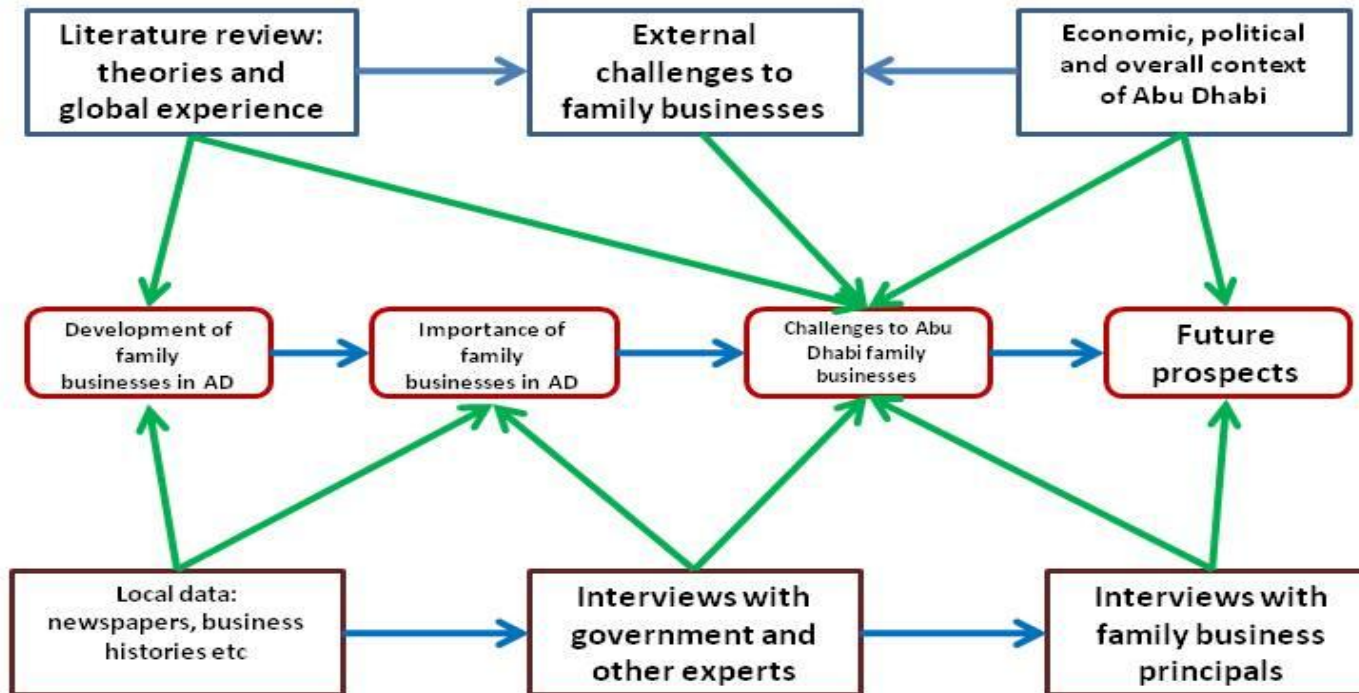
In this research there is the added dimension of lack of published information which can be used as a source of data. The focus on large family firms also restricts the available research methods, in part because there are relatively few of them. In this research, therefore, quantitative data collection and analysis is not a useful option. The core of the research approach is the use of interviews with experts. This both recognizes the lack of existing data and the small number (11) of Abu Dhabi family firms which can usefully be placed in the category “large”. On the positive side, the research methods used here are chosen, in part, to recognise the researcher’s ability to access family business CEOs for research interview purposes.

3.5 The design of the current study

There are many ways of representing research designs; however, in this case, the “themes-theory-evidence” approach shown in Figure 3.1 is a useful framework. It links several components of the research together:

- The aims and purposes of the research; in overall terms this to try and attain a better understanding of the future role of large family firms in Abu Dhabi
- Research questions; that is the more specific questions which, if the researcher makes an attempt to answer them, will contribute to achieving the overall aim of the research
- Theories and conceptual frameworks; what theory(ies) will inform or guide the research? What are the conceptual frameworks which link together the different issues being studied?
- Methods; what specific research methods will be used to collect evidence and how will it be analysed?
- Evidence gathering; where will evidence be gathered from? From whom will data be sought?

Figure 3.1 Research Design



The major questions addressed by the research are shown, in abbreviated form, in the centre row of (red-outlined) boxes. The fourth and fifth questions¹ have been conflated to the single box “Future prospects”. The central row thus captures the central themes of the research. The top row (blue outlined boxes) shows the contextual elements of the research. These comprise theories and frameworks for analyzing family businesses and the experience of family businesses in other countries and time periods as summarized in the literature review chapter. The right hand box of the top row provides the political, economic, social, cultural and policy context for family firms in Abu Dhabi, and the UAE and GCC insofar as they directly affect Abu Dhabi. This context is exogenous to family firms in the sense that they cannot alter it in the short-term to any meaningful extent. These two contextual perspectives help to establish the external (to the business) challenges which family businesses are likely to face in the future. This is shown in the central blue box.

The literature review also bears directly on two of the research questions beyond helping to identify external challenges. The first of these is the ways in which family businesses have developed elsewhere and therefore might develop in Abu Dhabi, where the history of large family businesses is much shorter than it is elsewhere. Secondly, the literature is also rich in discussions of the internal challenges which family businesses face and strategies by which these may be successfully managed.

The brown outlined boxes on the bottom row show the primary sources of evidence which are used to explore the research questions. Locally published information is used to help establish the ways in which family businesses have developed in Abu Dhabi and their importance in the Abu Dhabi economy. This information is sparse and some of it difficult to access for many researchers given that is only locally published, often in

¹ What are the opportunities for, and expectations of, family firms in Abu Dhabi? and What strategies and policies are likely to be needed to ensure the future sustainability of family firms in Abu Dhabi?

Arabic. On its own it is insufficient to provide a foundation for the major evidence gathering activity – interviews with principals, mainly Chief Executive Officers (CEOs), of the major family businesses in Abu Dhabi. The locally published data was supplemented by interviews with a small number (seven) of highly placed government ministers and officials who were well placed to give an informed assessment of the current position of family firms in Abu Dhabi.

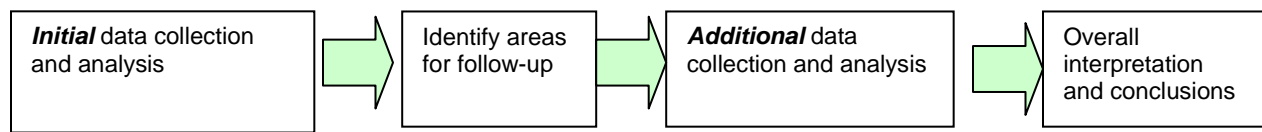
The blue arrows show the development of the thesis along the three main dimensions of establishing the overall context of family firms in Abu Dhabi, research evidence gathering and analysis and the logical progression through the research questions. The green arrows show how the different contextual and evidence elements inform the developing line of analysis in the thesis. It is important to note that the green arrows all point to the research questions; the aim of the thesis is to explore and explain the role of family firms in the Abu Dhabi economy and discuss what their future might be. The research does not aim to set up and test any specific hypotheses; an entirely different diagram would be needed in such a case. The diagram is not intended to include every possible relationship between the parts; rather it is an attempt to encapsulate the relationships between the main elements of the research. For example, there are clearly links between the top and bottom rows, for example some “local” evidence is included in the literature review particularly where it derives from academic sources. Nor do the boxes in the diagram always map directly onto chapters in the thesis, for example it is not helpful to discuss the main research questions one by one in a sequential chapter format.

3.5.1 The exploratory nature of the research

The design is thus essentially a qualitative one, although some elements border on mixed methods in the limited sense that more than one source of qualitative data is used. The nature of the research is exploratory rather than explanatory or predictive. Although the title and aim of the thesis refer to the future of family firms in Abu Dhabi,

it is not the intention to predict what that future might be or provide an explanation of the reasons underlying some predetermined potential role. Rather it is the purpose of the thesis to explore what the role of family firms might be in the face of a changing and uncertain future.

We can summarise the basic aspects of an exploratory research design in a simple flow diagram:²



Exploratory research can be conducted using quantitative methods, experimental approaches, mixed methods and, as here, qualitative methods. The function of the additional data analysis is to follow-up, deepen and attempt to begin to explain the outline results of the initial data collection and analysis. In this work the initial data collection phases derive from the first set of interviews with government and other experts and an analysis of the available secondary sources. The additional data phase comprises interviews with family firm CEOs.

3.6 Research ethics

This research involves human subjects and, as such, has been subject to the ethical review processes of Coventry University.³ This requires that all participants in the research, including questionnaire respondents and interviewees, are fully informed about the nature of the work and their roles in it and give their informed consent to be

² In some cases there may be several iterations of parts of this flow so that it becomes a cyclical activity. However, the flow shown here provides a useful summary of the pattern followed in this thesis.

³<http://wwwm.coventry.ac.uk/researchnet/ExternalResearchInformaion/Ethics/Pages/Ethicsgovernance.aspx>

involved. All research proposals are ethically reviewed by at least one independent researcher and must be approved before data collection can begin. All data is anonymised and opinions or data are not be reported in any way that enables a reader to link individuals to a particular item of data, for example an opinion given in response to an interview question.

3.7 “Quality” in qualitative research

Whatever research design is adopted it is important that the work is carried out to standards which are acceptable to the research community; this requires that other researchers be able to judge the “quality” of the research. In the absence of quantitative measures of quality, such as those frequently employed in judging some types of quantitative research such as survey work,⁴ other criteria need to be developed and adopted. For example, can the results of the research be regarded as “legitimate”? Legitimation may be derived from how well the researcher has blended the different parts of the study within a coherent design and the care with which inferences are drawn (Onwuegbuzie and Johnson, 2006).

For many users of research the important issue is whether the conclusions drawn can be trusted or not. Taskakorri and Teddlie (2003) call this “inference quality”, a concept which has similarities to the conventional one of validity in that both focus on the issue of whether or not the conclusions drawn from the data are valid or not given the research methods used. Similarly “auditability” mirrors the more familiar concept of reliability, but recognizes the practical and theoretical difficulties of others repeating research studies such as this one. On the other hand, auditability acknowledges that other researchers should have sufficient information, particularly on how the research has been conducted, on which to judge its quality.

⁴ Notably statistical measures of reliability and validity.

Major and Savin-Baden (2010) suggest four measures for judging the “plausibility” of qualitative research. These are:

1. Credibility; the idea that the reader or user of the research can have confidence in the data presented and in its interpretation. Credibility is a similar notion to that of internal validity in quantitative studies, that is that the findings describe some believable reality.
2. Transferability; that is the idea that the findings of the work may have some applicability or relevance to similar situations, for example family firm development in other contexts. In particular, the underlying assumptions made and the context in which the research was undertaken need to be made explicit enough to allow others to make an informed judgment as to its applicability elsewhere.
3. Dependability; the notion that the research can be trusted over time. This requires some degree of transparency in the research process; the researcher needs to provide sufficient information about how the research was conducted to allow others to make judgments as to the extent to which it can be trusted as a reliable piece of work.
4. Confirmability; could the results be confirmed or corroborated by others, at least in principle if not in practice? This presents most difficulties in the interview situation. For example, in this research, interviewees and the interviewer were often known to each other, and it may be that different results could have emerged if someone else undertook the interviews.

3.7.1 The participatory element

An important element highlighted during this research is the researcher’s personal professional experience of several years in executive positions in family business. Jick (1979:609) argues that research benefits from

...the perceptions drawn from personal experiences and firsthand observations...

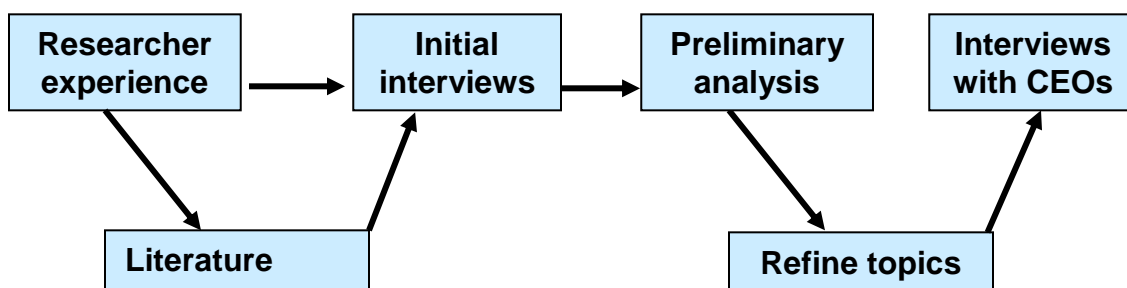
Personal reasons for adopting a particular research approach can provide a legitimate reason for its adoption in addition to the ability to advance knowledge of the core research issues (Teddlie and Taskakkori, 2009).

However, participation by a researcher in some of the processes and issues being investigated has potential dangers as well as significant advantages. The advantages derive from regular and rich firsthand access to important actors and institutions which shape the phenomena under study. The disadvantages derive from the possibility that the researcher may not be open-minded enough to be able to critically analyse these phenomena. It is important to guard against this by ensuring that arguments, analysis and tentative conclusions are regularly tested through discussion with independent “critical friends”.

3.7.2 Data constraints

The data collection elements of this research are summarised in Figure 3.2.

Figure 3.2 Data collection phases



An important question in any research project is “Is there enough data?” In positivist studies relying on quantitative data this question is usually answered by recourse to statistical sampling theory. However, in a qualitative methods study such as this one the question is more difficult to answer. One approach may be to rely on the idea of

“saturation”; that is, the researcher continues to collect and analyse data until no new useful information emerges. For example, interviews should be carried out to a point when the researcher finds that additional interviews do not provide new insights and the answers fall into a pattern which is already familiar (Alasuutari, 1995:59). However, if the research field under consideration is large then this may be an unrealistic criterion. An alternative is to continue to collect data until “plausible themes” emerge. This may be aided by sampling data to achieve breadth and variation rather than concentrating on depth.

As already noted at a number of points, the amount of data available is limited. It is therefore possible, but hopefully unlikely, that saturation does not occur and plausible themes do not emerge before the available data is exhausted. Of course, it is difficult to judge when saturation does occur in the sense of continuing to collect and analyse data until nothing new of interest emerges, even though there is more data which could be analysed. Saturation is essentially a “stopping rule”, cease analysis when there seems little prospect of anything new turning up. The stopping rule in this research is to cease analysis when there is no more data to be analysed. Of course, an alternative view might be to attempt to gather more and more data from the available sources, however this would require the interviewees to give more of their time and is not practical in the cultural environment of Abu Dhabi.

“Plausible themes” provide a more realistic possibility. The identification of areas of agreement and disagreement provide one area where plausible themes can emerge. However, there are also elements of triangulation within the research. Denzin (1970; 2006) distinguished four forms of the general concept of triangulation⁵. Data triangulation entails gathering data through several different sampling strategies, so that slices of data at different times and/or from a variety of people are gathered. In its

⁵ Data triangulation, investigator triangulation, theoretical triangulation and methodological triangulation.

pure form data triangulation combines sources within the same method of collection. However, more generally data triangulation can be used to encompass elements of methodological triangulation, that is collecting different data slices by different means. There are two sets of interviews in this research. In addition Chapter 4 provides an analysis of the historical, cultural and policy context of family firms in Abu Dhabi. Both these features of the research design provide means of triangulation and, in particular, a means of evaluating the plausibility of any themes which might emerge from the interviews with CEOs. Whilst triangulation naturally points towards convergence in findings, it is important not to make the simple assumption that convergence implies that the findings must be accepted (convergent validity). It is possible that all the data is flawed or that investigator bias systematically affects interpretation.

3.8 Interviews

Interviews have been characterized as “a conversation with a purpose” (Kvale, 1996). According to Gubrium and Holstein (2002), the interview can be described as a purposeful discussion between two or more persons. Leedy and Ormrod (2001) point out that the use of particular type of interviews as a data collection method depends mainly on the research objectives. They can be conducted on a one-to-one basis or in groups. Each format has its own advantages and disadvantages. Group interviews are time effective for the researcher, allow interviewees to feed off each other and can reveal differences of opinion. On the other hand they can be dominated by a few forceful individuals and may deter some participants from stating their views. They may be very difficult to arrange since all participants must be available at the same time. Individual interviews are time consuming for the researcher, but this may be offset by the time needed to arrange group interviews. One-to-one interviews also provide a less threatening environment for some people who may, as a result, be more open and informative.

One-to-one interviews, and to some extent group interviews, can be located on a spectrum from highly (interviewer) structured to open or unstructured. Highly structured interviews make use of closed questions and are akin to a survey where researcher completes the questionnaire on behalf of the respondent. Highly structured interviews are often a form of quantitative research where the aim is to collect “hard” data which can be translated into variables which can be analysed numerically. Open or unstructured interviews are designed to encourage interviewees to talk freely with little or no guidance from the interviewer. In an unstructured interview the aim is to invite the interviewee into a conversation where they take the lead⁶; the interviewer offers prompts, encouragement and cues to induce the interviewee to elaborate on what they are saying. Unstructured interviews rely very heavily on detailed post-interview analysis of the encounter. Semi-structured interviews lie in between and strike a balance between the rigidity of structured interviews and the completely open (unstructured) interview. They will usually combine closed and open questions but will focused on a topic which is known to the interviewee. Their purpose is to extract information and opinion from the interviewee. Semi-structured interviews are used in this research.

Kvale and Brinkmann (2009: 48) use the metaphor of interviewer as miner (contrasted with interviewer as traveler). The miner metaphor is explained as:

...knowledge is understood as buried metal and the interviewer is the miner who unearths the valuable metal. The knowledge is waiting in the subject's interior to be uncovered, uncontaminated by the miner...

As Kvale and Brinkmann note, this does not presuppose that interviews are being used within a positivist research framework; “mining” is consistent with other research paradigms such as exploration.

⁶ The term “unstructured” is thus misleading. Open interviews can turn out to be highly structured, but it is the interviewee who contributes the structure.

A cultural rationale for the use of interviews in this study is that other researchers have confirmed that using interviews is a very successful method in collecting data within the Arab culture where people prefer to talk rather than complete a questionnaire, particularly if this requires significant time writing out detailed answers (Al-Rasheed, 1996; Al-Bahussain, 2000; Zamzam, 2011).

3.8.1 Semi-structured interviews

Corbetta (2003:270) outlines semi-structured interviews as follows:

...when conducting a semi-structured interview, the interviewer makes reference to an outline of the topics to be covered during the course of the conversation. The order in which the topics are dealt with and the wording of the questions are left to the interviewer's discretion. Within each topic, the interviewer is free to conduct the conversation as he thinks fit, to ask the questions he deems appropriate in the words he considers best, to give explanations and ask for clarification if the answer is not clear, to prompt the respondent to elucidate further if necessary and to establish his own style of conversation...

In semi-structured interviews the researcher has a list of questions or fairly specific topics to be covered, usually in the form of an interview schedule. However, the interviewee is given a great deal of freedom to reply in the way that suits them best. The structure provided by the interview schedule helps to ensure that there is some degree of consistency in terms of the topics covered and lays the foundation for comparative analysis of responses in different topic areas.

Semi-structured interviews also provide the interviewer with some flexibility, within limits, to dynamically adjust the interview to particular circumstances (Jennings, 2001). The interviewer is free to introduce additional promising lines of questioning as the interview progresses and the interviewee is not constrained to giving narrow answers. The interviewer can probe for more specific answers and ask the respondent for elaboration (Bailey, 1994). Question sequences can be altered to improve the flow of the interview. The flexibility of the interview process helps to ensure that the interviewee's understanding of topics forms the agenda rather than the interviewer's

predetermined list of defined questions. The semi-structured approach is well suited to interviews with experts in a field of enquiry since it balances the researcher's need to gather information on a given range of topics whilst giving the interviewee the freedom to share their knowledge and expertise, including areas of knowledge which the researcher may not have anticipated as being of importance.

A potential disadvantage of semi-structured interviews derives from their use of open-ended questions; these are "generally more sensitive to social desirability bias" (Oppenheim, 2005: 127). Social desirability bias is the tendency for interviewees to respond in ways which will be seen in a positive or desirable light by the interviewer. Expert interviewees may exhibit a tendency to over-emphasise positive aspects of their involvement in a situation and under-emphasise negative aspects. There is little an interviewer can do to remove this tendency except to be aware of it and ask supplementary probing questions to try and elicit more balanced responses.

3.8.2 Conducting semi-structured interviews

There are a number of important aspects of conduct of semi-structured interviews. Firstly, it is important to promote interaction between the interviewer and interviewee; the interview is a dialogue rather than a monologue by one or the other parties to interview. The interviewer will have a list of potential topics for discussion (the interview schedule) which will often have been shared with the interviewee in advance. In addition, the interviewer will have prepared a list of follow-up questions which can be used as prompts if the flow or direction of the interview would benefit from some impetus.

Successful semi-structured interviews are often the product of the researcher establishing and building up a relationship with interviewees. The process of collecting data through interviews is designed to encourage openness and build a sphere of mutual trust between interviewer and interviewees.

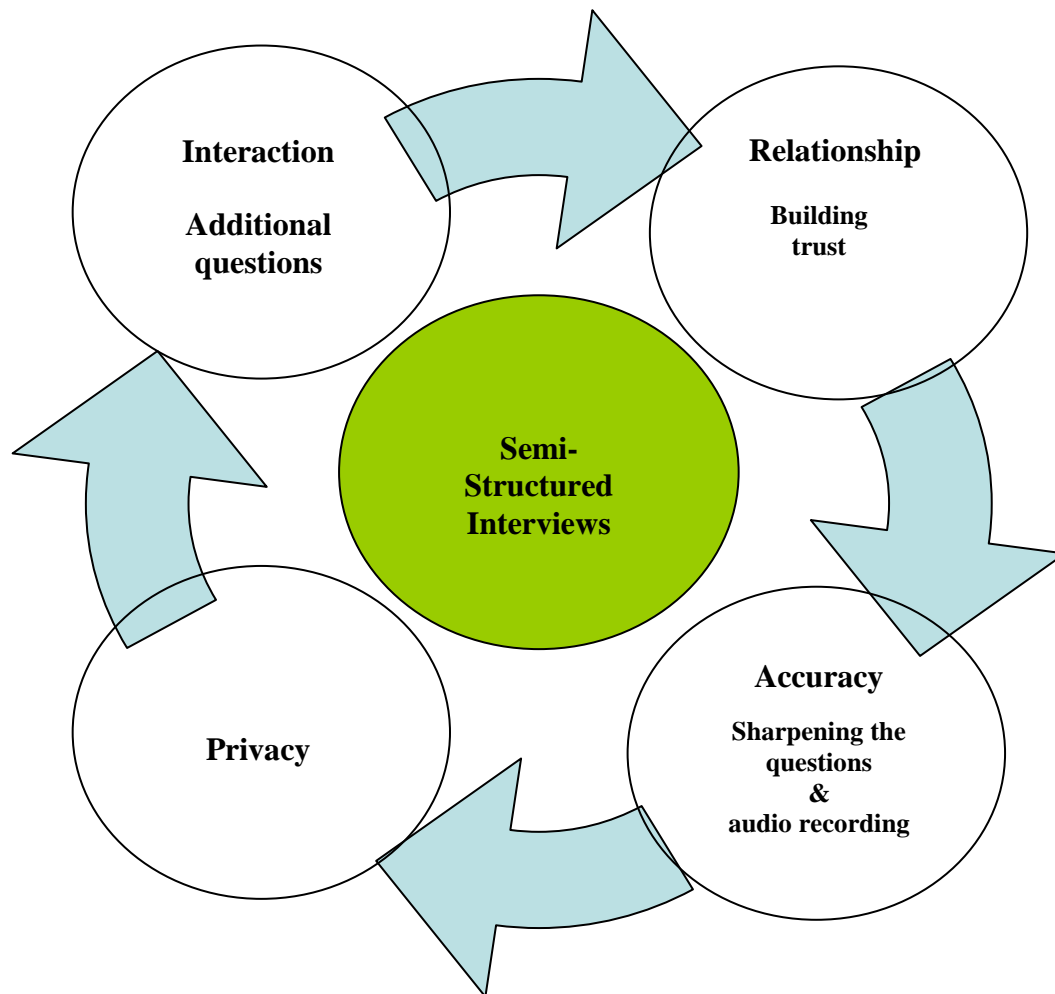
Accuracy is a desirable characteristic of a semi-structured interview and is a product of the interaction between interviewer and interviewee. "Accuracy" is the ability of the interviewee to hit its desired target in the sense of the interviewer gaining the desired information. In a semi-structured interview the interviewer has the opportunity to spotlight questions in order to achieve more focused answers and consequently reach the desired accuracy level. Sometimes, detailed questions are considered annoying by interviewees, especially when an atmosphere of trust has not been established.

In the post-interview phase, accuracy is also dependent on the way in which interview data is captured. When approved by interviewees, audio-recording is probably the best way to achieve accurate recall of the interview information given. Silverman (2001) emphasized the importance of tape recording, believing that memories may lead us to summarise unfairly what people have said, as it is impossible to remember the exact details of what was said and in precisely which context. In this research, interview data will be captured through note taking and tape recording by arrangement with interviewees. They will be conducted in English when possible, and at the convenience of each interviewee. Those interviews conducted in Arabic, however, will be translated into English using accredited translators to assure an accurate translation process.

Privacy and ethical conduct is also important in building trust in the interview. In particular this means that the boundaries of the interview situation need to be well understood and agreed between interviewer and interviewee. These boundaries cover rights over the use, verification, modification and interpretation of the information provided.

Figure 3.3 summarises some important considerations in conducting semi-structured interviews.

Figure 3.3: Conduct of semi-structured interviews



3.8.3 Analyzing semi-structured interview data

Qualitative modes of research are concerned primarily with textual analysis, whether verbal or written. Although there are many different approaches to textual analysis in qualitative research, only one is particularly relevant here.⁷ Semiotics is primarily concerned with the meaning of signs and symbols in language. The essential idea is that words/signs can be assigned to primary conceptual categories, and these categories

⁷ Thus the other major forms of textual analysis, hermeneutics and narrative analysis, are not discussed here.

represent important aspects of the theory to be tested. The importance of an idea is revealed in the frequency with which it appears in the text.

Within semiotics there are three main forms of analysis:

- 1 *Conversation analysis*: In which it is assumed that meanings of a text are shaped in the context of the exchange. In general, researchers immerse themselves in the situation to reveal the background of practice.
- 2 *Content analysis*: defined as “a research technique for making replicable and valid references from data to their contexts.” (Krippendorff, 1980). The researcher searches for structures and patterned regularities in the text and makes inferences on the basis of these regularities.
- 3 *Discourse analysis*: builds on both content analysis and conversation analysis but focuses on “language games”. A language game refers to a well-defined unit of interaction consisting of a sequence of verbal moves in which turns of phrases, the use of metaphor and allegory all play an important part.

Of these three, content analysis is the most appropriate in this research. Bryman (2004: Ch.18) defines qualitative content analysis as the searching out of underlying themes in the documents being analysed. The most important process is one of connecting data. Maxwell and Miller (2008: 467) note that:

...connecting analytic strategies do not simply preserve data in their original form. Instead, they are ways to analyse and reduce data. This is generally done by identifying key relationships that tie the data together into a narrative or sequence and eliminating information that is not germane to these relationships...

The way in which this is carried out is described in Chapter 6.

3.8.4 Interviewing: caveats

There are a number of areas where researchers using interviews as a major means of data collection should show awareness of potential pitfalls. In general, qualitative

research faces many conditions that represent obstacles and limitations that hinder the process of data gathering. The effect is often on the tools of data gathering, and interviewing in particular, is a type of tool that faces such limitations.

Scholars have seen the issue of generalisability within qualitative research as a limitation. In qualitative research the researcher is only able to interview a small percentage of the overall population. In other words, the number that researchers generally interview during their interviews is not sufficient to represent all the population. However, researchers can overcome this problem by emphasizing *who* is to be interviewed rather than how many and ensuring that interviews are conducted to a high standard.

The interviews in this research triangulate with the author's experiences of running a family business and the issues identified from the literature review. The three sources taken together provide a richer and potentially more valid identification of the key issues facing family businesses in Abu Dhabi than any one of them taken in isolation. The literature review suffers from a lack of sources dealing with specific Arabian Gulf economy issues, personal experience is prone to individual bias while the interviews are limited to the particular cultural context which the interviewees share. On the positive side the literature review brings a consensus overview of the major issues faced by family firms, personal experience brings a rich and detailed understanding of specific issues (what it feels like to run a family firm) and the interviews provide expert opinion on the specific context of the research.

In order to achieve a high level of reliability for interview data, the interviewer should be very precise in reporting not only the data itself, but the interviewer should also describe the way in which the interview is conducted. A text transcript for instance, cannot express the respondent's speech when the respondent is screaming or when the speech is high-pitched. Emotions also might affect the answer and cannot be adequately

reported in the text transcript. Speech intonations can be very important in the interpretation of the interviewee's perspective and views.

The use of tape recording is useful in capturing many dimensions of an interview; it also helps reduce the selective memory bias that might come from the researcher. When interviews are recorded, tapes should be listened to several times before and during transcription. When interviews are not recorded, the interviewer has a double responsibility in reporting data and other irregular intonations. Having another person with the interviewer to take notes is useful. Immediately after each interview the researcher and his assistant should compare notes to produce as full and accurate record as possible⁸.

Interviews should be conducted in such a way as to ensure the interviewee, rather than the interviewer, is the focus. Interviews should be prepared to a plan that ensures they are conducted properly. In preparation for interviews, initial contact is very important in terms of building a rapport with interviewees; the communication skills of the interviewer will enhance this rapport and interview preparation will give a positive indicator to interviewees. The initial contact is ideally conducted through an introductory letter and then a follow-up phone call should be initiated by the researcher to introduce himself. Initially, respondents may raise issues such as "I am not sure about my contribution in family business research". Interviewees should be reassured by being told how they were selected, that is on their relationship to family businesses and their experience and opinions.

3.9 Expert interviews

Expert interviews are ones where people, who are considered experts in a particular subject share their knowledge with the interviewer. Experts are either people who are

⁸ Another person, a skilled researcher, was present at all the interviews with the interviewees' permission. The role of the assistant was explained to interviewees. I am grateful for this help, which has contributed significantly to the quality of data capture from the interviews.

responsible for the formulation, development or implementation of strategies and policies or who have privileged access to, or particular understanding of, information about those processes. This latter group could, for example, include academics who have taken a particular interest in the topics under investigation. Expert interviews are used to gather information which is not otherwise accessible. They are, therefore, usually semi-structured.

3.9.1 Expert knowledge

Expert interviews are a way of making knowledge and its context more explicit. An expert can describe not only what was done but why, providing context and explaining the judgment behind the action. However, expert knowledge may not be neutral. In many cases experts will be part of the debate surrounding the issues being researched. In some cases experts may take particular stances in order to progress the debate, thus there may be experts and “counter experts”. Expertise may be a source of power and their opinions and views may be enmeshed in a series of power relations. It is therefore important to understand the role of the chosen expert interviewees in the overall debate.

Expert knowledge can take three broad forms. Technical knowledge is highly specific to the field under investigation; it embraces detailed knowledge of operations and the context of decisions and activities. Process knowledge is information on routines, processes and specific interactions. The expert derives the knowledge from direct involvement in the critical processes. Explanatory knowledge is more subjective in its nature and is based on the expert’s interpretations of the issues derived from their own reflections and thoughts. In this case the interviewee is the focus of attention rather than just what they know in objective terms. These are not hard and fast categories and frequently experts may possess more than one type of knowledge. This research seeks out explanatory knowledge from interviewees. Such expertise is often developed through praxis, that is the process of using, employing and developing ideas through

practical application. It is therefore a mutually reinforcing combination of theory and practice developed through experience.

Knowledge may be explicit or implicit (tacit). Explicit knowledge can be written down or verbalised and is generally easy to communicate. Tacit or implicit knowledge is difficult to express in words and is often acted on instinctively. Of course, the explicit-implicit spectrum is a wide one with much knowledge combining explicit and tacit elements. Knowledge gained through praxis is a good example. Interviews are a useful means of gathering explicit knowledge, but may be limited in their ability to extract implicit knowledge. However, they are more effective in this than, for example, questionnaires. Transferring implicit knowledge needs personal contact and trust between individuals.

3.9.2 The expert interview as an interaction

One consequence of the existence of different types of expert knowledge is that the expert interviews may need to take be based on different forms of interaction between interviewer and interviewee. These are summarized in Table 3.3 below.

The model used in this research is interviewer as co-expert. In this case the knowledge level of interviewer and interviewee is broadly comparable in some of the key areas under discussion. This should result in a high degree of interaction. Kvale and Brinkman (2009:131) distinguish between the thematic aspects of an interview (the “what”) and the dynamic aspects (the “how”). Dynamically, the interviewer should keep the flow of the conversation going and encourage the interviewee to share their thoughts and experiences. The interviewee may also seek out the views of the interviewer. The interview will essentially be a conversation (dialogue) between equals.

Table 3.3: Forms of interaction between interviewer and interviewee

RELATIONSHIP OF INTERVIEWER TO INTERVIEWEE	ADVANTAGES	POTENTIAL PROBLEMS
Co-expert	Can generate a high level of discussion and information gathering.	Shared agendas and assumptions may result in an uncritical approach to the interview.
Expert in another field	Can engender mutual respect; interviewees may take more care in their explanations.	Interviewers may not know the right questions to ask and be trapped in their own domain of expertise.
Lay person	Interviewers may not assume any particular agenda on the part of the interviewer and their answers may be more honest.	Interviewees may have a tendency to “dumb down” their answers and/or avoid specialist areas.
Authority figure	The interviewee may feel compelled to provide more information than they might otherwise do.	Respondent bias; the interviewee may wish to “please” the interviewer and protect their position
Confederate	Shared purpose can result in greater openness.	Shared agendas and purpose can hide areas of potential disagreement.
Potential critic	Can promote more considered and closely argued responses.	Respondent bias. Over-emphasis on areas of conflict/disagreement.

Source: Author

The questioning style is probing. The role of the interviewer is to extract the maximum knowledge from the interviewee within the time frame of the interview. The interviewer needs to stimulate discussion whilst leaving space for open answers. The interviewer may also share some of their own knowledge, thoughts and insights with the interviewee; this may help to keep the interviewee interested and forthcoming. This may require the interviewer to challenge the interviewee’s views and, potentially, be questioned themselves by the interviewee.

Such interviewing practice would usually be open to challenge on methodological grounds, that is the interviewer may potentially bias the interviewee's answers. However, the interviewee is an expert who is probably used to stating and defending their own position. One way of summarising the expert interview interaction is that it should show a strong degree of rapport between interviewer and interviewee, but that interviewer neutrality is not essential (Rapley, 2007). However, the interviewer must guard against imposing their own views on the interviewee.

3.9.3 Ethical considerations in expert interviews

It is essential that an ethical policy is adopted when researching and that the privacy of interviewees and the information they give during the interview is not compromised. Privacy is a particular concern due to the close contact in the interview and the potentially damaging nature of the privileged information provided should it be released without providing anonymity. In this research, honesty and respect were considered to be essential to this process by the researcher. In a field like family businesses, it is quite clear that privacy represents an indispensable factor when acquiring information.

In addition to privacy, the nature of the family business is affected by kinship relations. These relations are the inner texture of the family business, which, in its turn, has its own privacy norms that are arguably greater, or are at least as important as external privacy. In order to overcome this problem, an atmosphere of trust and anonymity must be established and interference in sensitive issues avoided. Furthermore, codes of acceptable behaviour were set up in accordance with the desire of particular interviewees prior to the interview.

Expert interviews presume a degree of trust between interviewee and interviewer which may differ from that in other forms of interviewing. Firstly, interviewer and interviewee may be known to each other personally, professionally or by reputation. Interviewer and interviewee may have been introduced to each other by a third party trusted by both. In this research, interviewer and interviewee are co-experts in the field

of study and approach the interview on the basis that they are both professionals sharing experience. This context is not the same as the usual researcher-subject one.

Interviewees may agree to be interviewed on the basis that they presume trust rather than on the basis of protocols identified as part of a research code of practice. In the Middle East it would be almost impossible for an unknown researcher without social, personal, professional or other connections to gain access to busy expert interviewees. This cultural reality may well, for example, preclude younger researchers from undertaking such interviews. On the other hand it does place additional responsibilities on the researcher to ensure that the trust of the interviewee is not abused. For example, interviewees may offer opinion or information during an interview which they might later wish to change or withdraw; a “conversation between equals” is not normally recorded and used for research purposes. It is important, therefore, that interviewees are offered the opportunity to review and revise their answers and comments. The best way to accomplish this is by offering them the chance to read a transcript of the interview and edit it accordingly. Interviewees will also be offered a copy of the audio-recording if made⁹.

3.10 Summary

This research seeks to identify major themes which will influence the future development of family firms in Abu Dhabi in the medium term (taken to mean up to 2030, the period covered by the Abu Dhabi Vision). The research relies heavily on expert interviews. Such a strategy is warranted by the lack of previous research in the precise area covered by this study and the dearth of published data of any sort. It might be possible and legitimate to ground specific research questions in theories of family firms, more generic research in the field or even by extension of work on other specific countries to Abu Dhabi. However, the current researcher’s strengths, experience and

⁹ It is not infrequent for Middle East interviewees to refuse permission to audio and/or video record interviews.

interests are much more aligned with the broader exploratory approach taken here. The researcher's access to a wide range of experts affords an important opportunity to investigate issues over a broader front than might otherwise be the case.

The approach chosen is an exploratory one. The research does not seek to make predictions concerning the future of family firms in Abu Dhabi and only attempts to explain the phenomenon of family firms in Abu Dhabi to the extent that explanation helps shed light on possible alternative strategies which such firms might need to adopt if they are to continue to prosper.

Chapter 4

Family Businesses in the UAE and Abu Dhabi

4.1 Introduction

This chapter sets the historical, cultural, economic and policy contexts of family businesses in Abu Dhabi. In doing so it also necessary to understand the UAE context since Abu Dhabi is the principal member of the UAE federation. It is not the aim of this chapter to give a detailed account of the Abu Dhabi economy; however those aspects of the economy which have a particular impact on family firms will be discussed. The chapter will locate some of the major issues for family firms identified in the literature review in the specific context of Abu Dhabi. It will also further lay the foundations for the primary data collection via interviews in Chapters 5 and 6.

In Abu Dhabi, the volume of trade and commerce was limited prior the discovery of oil; the main industries in the UAE were pearling, fishing and trading in goods like spices and dates. Both Abu Dhabi and Dubai have developed from areas of Bedouin settlement to become flourishing international cities offering high standards of living which, in the eyes of many people, are dream locations to live and work in. This has been accomplished in less than six decades of continuous work and development. UAE family businesses started through trade, but subsequent economic development, particularly the growing oil industry, resulted in expansion of industrial activities, services and agriculture; activities which are now in the hands of family companies.

4.1.2 Geographical location

The United Arab Emirates (UAE) is a federation of seven independent states (Emirates) located in the southeastern corner of the Arabian Peninsula. It is bordered by the Arabian (Persian) Gulf to the north, Saudi Arabia to the south and west, and Oman to the east. The total land area of the United Arab Emirates, including its islands, is 83,600 sq km (32,300 sq mi). The UAE Capital is Abu Dhabi.

Figure 4.1: Map of the UAE and Abu Dhabi

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The UAE is a one of the members of the Gulf Cooperation Council (GCC), which also includes Saudi Arabia, Kuwait, Oman, Bahrain, Qatar, with Jordan due to join in the near future. It is also a member of the Arab League, the Organisation of the Islamic Conference, the United Nations and the World Trade Organisation (WTO).

4.2 The historical context

Arabic socio-cultural texture is built on family and tribal relationships; Bedouins and the other tribes who lived in the desert demonstrate very high levels of kinship for two main reasons. Firstly, some essential elements to support life are limited in the desert, so members of the tribe are, through a natural imperative, partners in the collective protection of scarce resources such as the water from a well and oases or grassy areas to feed their cattle, camels or sheep. Secondly, in the absence of a formal legal system, tribes used to attack each other for many reasons and if members of a tribe were not united they would be unable to defend their

houses, women and children and physical assets vital for survival. This need for tribes to stay united extended beyond desert dwellers to, for example, those who made a living fishing or diving for pearls, since they needed to cooperate to face any possible risks on the surface of the sea or in the depths below. This was a feature of many societies in the past and a useful parallel could be drawn with the Scottish Highland clans until around the middle of the 18th century. In the case of the Scots and Irish clans, the word 'clan' means 'children'. The emphasis lay on the role of the chieftain who offered protection in times of physical danger or famine. In return the clan members were honour bound to fight on their chieftain's behalf when the clan was threatened. Obviously it was a relationship of mutual interest, reminiscent of aspects of the feudal system in England, but much more based very much on blood, kinship and lineage ties¹.

4.2.1 The Pre-oil era

The spirit of the family is an essential dimension of Arabic culture. Prior to the oil era, and by the end of 1800s and beginnings of 1900s, undertaking business in Abu Dhabi and Dubai was a primitive and humble existence. Merchants² were the core of the business class, and they built good relations with tribal rulers and later the ruling families of the Gulf States. The merchants' financial influence derived from their dominance in the pearling industry and trade in general. In the UAE before the discovery of oil, the economic weight of merchants was a compelling reason for them to have strong relations with the ruling families. This, in turn, gave them political power. However, as Abu-Baker (1995) argued, merchant political power had limits:

...the political power of this class (merchants) though limited, by no means challenged the authority of the ruler...

Herb (1999) described the relationship between the rulers and the merchants of the pre-oil era as one of mutual, but different, interests; merchants subsidized the rulers, and the rulers in

¹ I am grateful to Professor Tom Donnelly for this observation.

² The merchants were local Arabs, Persians and people from the Indian sub-continent.

turn protected the merchants' trade. The pre-oil era set the foundations of the existing strong relationships between the major regional family businesses and the ruling families and has developed from being simply economically focused into a much deeper relationship encompassing many aspects of state-society relations. In other cases the close relationships between regional ruling families and the major business families grew out of the tribal alliances which were and, to some extent, still are a feature of regional political, economic and social structures. For example, the Al-Mansuri is the second largest tribe in Abu Dhabi after the dominant Bani Yas coalition from which the ruling family is drawn, and has (nearly) always supported the Bani Yas. The Al-Dhaheeri tribe has also been loyal supporters of the ruling Al-Nahyan family. The Al Mansouri³ and Al Dhaheeri family business groups are now two of the largest in Abu Dhabi⁴. Davidson (2009: 116-118) provides further elaboration of tribal relationships in Abu Dhabi. The ties between business families and ruling families have been strengthened through inter-marriage and cross holdings in each others' businesses.

The ability to tax revenues derived from pearling businesses was a power in ruling family hands through which they could exercise control over relationships with merchants as well as providing a source of income which was not only used for their daily expenses and luxuries, but also as a means of supporting their people. Abu-Baker (1995) states that some of the money derived from taxation was used as a financial grant to the tribal elites who provided the political support that enabled the Sheikhs to control their communities, including merchants and their pearl divers. Abdullah (1978) confirmed that the pearl trade enabled merchants to occupy a central position in society and become political insiders. The pearling and fishing industries were built on the skills of the divers and, more importantly, physical capital in the form of fishing boats; boats were the source for generating both income and food (pearls and fish). Thus, owners of boats, who were usually merchants who financed them from their profits from trade, were members of the wealthy elite of the time.

³ Arabic names are rendered phonetically in English and there is often no correct spelling. In particular spelling conventions shift through time.

⁴ Members of these two families also hold key government posts.

Individual merchants joined together to enable more rapid expansion of their businesses. Family members and trusted members of the same tribe were the obvious partners as they shared common ties and interests. Sole proprietor merchants became diversified family businesses as expansion placed greater demands on the skills and experience of business partners and the logistical needs of businesses grew (more pearls need more boats, more boats means more family members involved in industry through building boats etc).

However, inevitably, merchants eventually faced a period of financial decline with a consequent fall in tax payments. According to El-Mallakh (1981) there were a number of factors contributing to a decline in the role of merchants, and thus tax revenues, during the 1930s and 1940s:

- Introduction of a new 'cultured' pearl by the Japanese which was much cheaper than those produced in Gulf communities
- The worldwide depression during the 1930s resulting in the loss of luxury markets; and
- The demand for Persian Gulf area pearls was reduced as a result of the Second World War and the consequent loss of the large American and European markets.

The weakening of the economic link, built on taxation, between family businesses and ruling families inevitably affected relations between them; on the other hand, some merchants remained closely related to the ruling families as a result of intermarriage. Economic upheaval also drove political reform in the then most active commercial areas of the Gulf, that is Dubai, Bahrain and Kuwait. The ruling bargain between the merchants and the rulers was put under pressure during the periods of economic hardship in the 1920s and 1930s. Abu Baker (1995) notes that such reforms peaked in 1938 with the so-called Majlis⁵ Movement in Kuwait; this

⁵ Meaning 'place of sitting' in Arabic, the term is used to describe a formal legislative assembly and also a place for social gathering. It has long been regional tradition for rulers to hold open discussions with their people. Often, this forum is held by the emirate rulers as well as senior family members. This open majlis, or consultation, is held periodically.

resulted in the creation of a (short-lived) legislative assembly and the tentative introduction of a more distributive political system (Khalaf and Luciani, 2006). Political reform in the 1930's was not obviously triggered by concerns about merchants' historical role or their political influence; if this was the case pressures would have risen between 1903 and 1913 when merchants were at their peak in terms of wealth and relations with rulers. Rather it was driven by the opposite, that is, economic scarcity.

However, the decline in the pearling industry did not affect everyone equally. The impact on foreign merchants, particularly those of Persian origin, was more limited due to their well-established trading businesses in their home countries. For example, Al-Fahim (1995) points out that some merchant families, such as Al-Khoori and Abul-Rahim Bin Ibrahim, have remained strong despite the pressures on their survival. The Al-Fahim family itself originated in the southern part of Persia (Iran) at the end of 1800s:

...My own roots can be traced back to those who fled Persian oppression after the latter occupied the island of Sirri, near Abu Musa in the middle of the Persian Gulf in 1887... (Al-Fahim, 1995).

These survivor family merchants were, at the time, mainly based in Dubai where pearling was one of their principal trading businesses. Many foreign merchant families, who later become Emirati citizens, became close allies with ruling family's members and well-trusted members of the business elites.

4.2.2 The oil era

A new era of wealth and prosperity came to the UAE after 1971, when the country witnessed the discovery of oil. The discovery and subsequent exploitation of oil generated huge wealth which was the catalyst for change in the Gulf countries. The transformation which followed included a shift from a nomadic culture to a highly organized and wealthy nation in less than forty years. Before oil, there were no government social programmes, very limited medical services, and the infrastructure of roads, transport, water and electric power was, at best,

primitive (Davidson, 2009). The availability of oil money brought great social and economic changes to Gulf countries and helped give birth to new businesses. The rapid development of the Gulf countries created opportunities which established and trusted family businesses were well placed to exploit. The ruling families were faced with the novel problem of distributing, investing and managing enormous wealth. In particular wealth brought in its train foreign workers and, on the other hand, the opportunity to travel abroad for UAE residents. This, together with new found wealth, created higher expectations that oil revenue benefits would be shared and broadened the aspirations of emiratis. Just as economic hardship in the 1920s and 1930s threatened to undermine the ruling bargain, so did economic riches in the 1970s and 1980s. As a result, the ruling families sought to involve the merchant elites who had historically been allied to them, especially their supporters during the periods of economic decline. Elite merchants began to be appointed to important positions in a variety of government departments and agencies. In addition, the ruling family also started to distribute some of the oil wealth to the people (or at least emiratis), for example in the form of free housing, cash gifts at the time of marriage, welfare payments and so on. This generated a flow of money in the country and developed individuals' capability to buy and participate in the economy.

4.2.3 The growth of modern family businesses

Many family businesses emerged during the pearling era. Not all these businesses were directly involved in pearling; some carried on the traditional activities of fishing and trading. In some cases, family reputation and skills formed a basis for business diversification; for example a family involved in fish selling might collaborate with a family trading in dates or start a date business of their own. Economic development and social factors, like the increase in family members who wanted to be involved in business activities, played their part in driving the growth of family business. Abu-Baker (1995) addressed the emergence of major family businesses by identifying them as:

...the traditional merchant families that have consolidated their holdings into one group of companies with highly differentiated lines of business...

It is these family businesses which are the focus of this thesis. The range of family business activities expanded beyond pearling, fishing and trading, to include agriculture⁶, industrial production and construction. The starting point for most families was with construction, trade and some light manufacturing, but family businesses also started to move into the services sector, including financial services, and importing and exporting.

There are many factors that helped the establishment of successful family businesses in the Gulf. According to Davis et al. (2000) these include:

- The experience gained from pearling and other trading activities helped families establish networks and business channels, even if they were primitive.
- The oil era opened a flow of funds that gave opportunities to start businesses with an adequate financial base.
- The new environment that was created in the country encouraged establishing/expanding family businesses. The “new environment” concept refers to the vision of being open to the world, developing the country and importing all means of high technology and communication⁷.
- The open-minded vision and eagerness for development started emerged at the individual level; a new generation, fuelled by the availability of money, travel and exposure to ideas from around the world, became another trigger for family businesses development, expansion and growth.
- The social relations of some elite merchant families with the ruling family was, to some extent, another factor underpinning business enhancement, either through obtaining additional financial support or governmental facilitation at the start-up phase or the award of governmental contracts, mainly in the oil and construction industries.

⁶ Families had always been involved in agriculture, but much of this was of a subsistence and barter nature rather than being on a business footing.

⁷ In the pre-oil era Abu Dhabi was highly insular and undeveloped and the life-style was still a traditional nomadic one, even if people were settled in one place (Davidson, 2009).

However, family business success was not the same in all Emirates of the UAE; it varied from one Emirate to another based on many factors (Davis et al., 2000):

- The size of the Emirate.
- Share of oil revenue to each Emirate, which in its turn means the level to which infrastructure communications and transportation were developed or not.
- The business history of the particular family and their relations with the ruling family of that Emirate. The leading merchant families who emerged in the pre-1970s had strong business relationships with ruling families.
- The prevalence of pre-existing partnerships between merchant families which helped to launch strong new businesses. According to Abu Baker (1995) business partnerships among “the commercial bourgeoisie” were extensive and often cut across Emirate boundaries⁸.

Figure 4.2 summarises the pattern of growth of family business in the UAE.

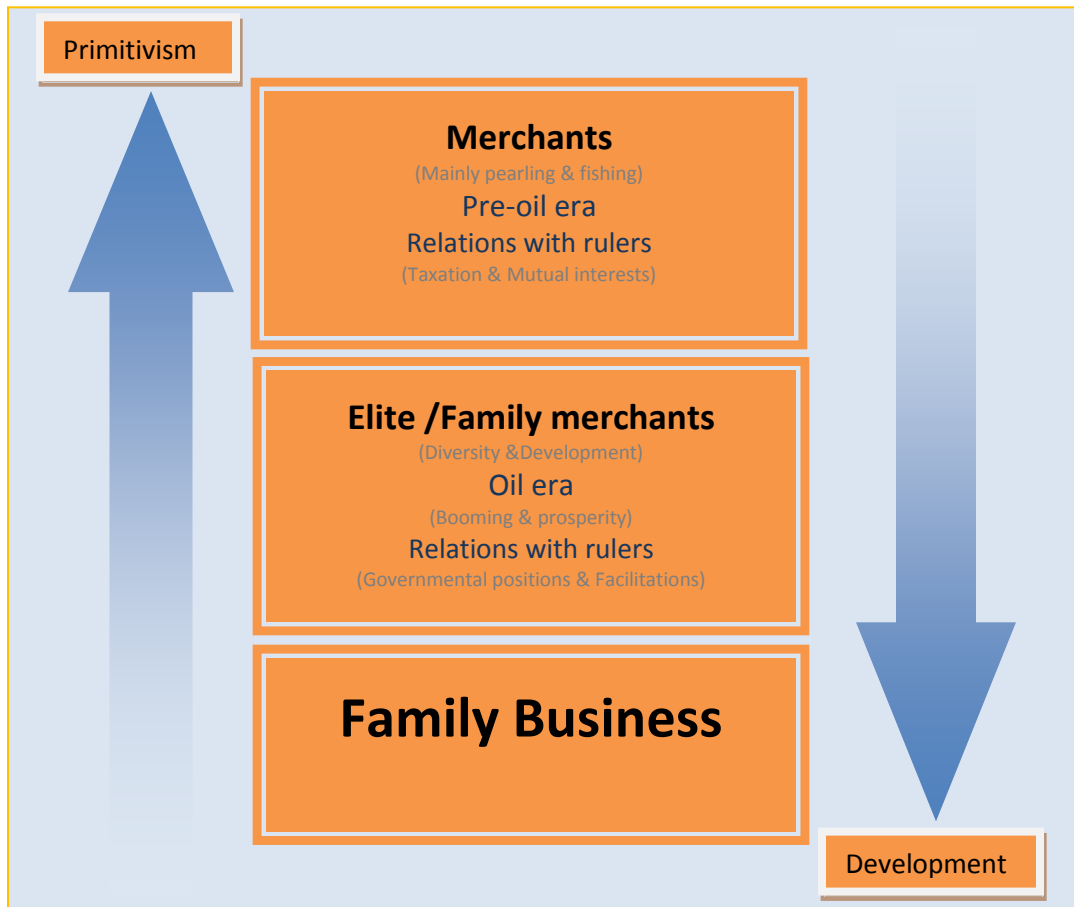
4.2.4 An illustrative example: the Al-Fahim Group

The Al-Fahim family is one of the most successful business families in Abu-Dhabi. The Al-Fahim Group was founded by Abdul Jalil Al-Fahim in 1958 who led the development of the business until 1996 when he passed away. In his (1995) book *From Rags to Riches: A Story of Abu Dhabi*, Mohammed Abdul Jalil Al-Fahim⁹ explains how this significant family business entity grew.

⁸ There are a number of reasons for this. Firstly, emirate boundaries were a somewhat artificial construct created under the influence of the British (Davidson, 2005: Ch. 1). Secondly, five of the seven emirates are geographically quite small. Thirdly, traditional tribal structures cut across the geography of emirates. Fourthly, there are no physical borders between emirates.

⁹ The eldest son of the founder.

Figure 4.2: The Pattern of Growth of Family Businesses in the UAE



The father of Abdul Jalil married a woman from the Al Hawamil tribe (one of the Bani Yas coalition of powerful tribes from which the current rulers of Dubai and Abu Dhabi are descended) in 1905. His marriage was attended by the ruler of Abu Dhabi, Sheikh Zayed Bin Khalifa. Thus, from very early on the Al-Fahim family began to cooperate effectively with the ruling family of Abu Dhabi thus becoming influential, well known and successful. However, the path of business was far from smooth. The family's business assets (initially shops and stock but later boats as well) were destroyed by fire on three occasions between 1900 and 1928 and the

businesses had to be restarted¹⁰. However, persistence and entrepreneurship was also a trait of Abdul Jalil's eldest son, Mohammed. In the 1960s Mohammed realized that the expanding fleet of motor vehicles appearing in Abu Dhabi following exploitation of oil would need servicing and spare parts. He sold the traditional family shop and invested the entire proceeds in buying a stock of vehicle parts from Bahrain.¹¹ The parts business was a success. In 1969, Mohammed Al-Fahim began the process of converting a typical small family business in the Gulf to become a large corporate entity. Growing from a modest store in Al Ain into a massive operation within the UAE, the Al-Fahim Group currently includes Emirates Motor Company (EMC), official distributors for Mercedes Benz vehicles in Abu Dhabi and Al Ain; Western Motors, official distributors for Jeep vehicles in Abu Dhabi and Al Ain; Central Motors & Equipment, distributors for Bosch Power Tools and Automotive Parts, Bosch Car Service in the UAE and representation of Michelin tyres in Abu Dhabi.

The group's thirteen entities now encompass activities in the automotive, travel and tourism, real estate, hotels and hospitality, industrial development and oil and gas industry services sectors, all of which have substantially contributed to the overall economy of the UAE. With offices in Abu Dhabi, Dubai and Sharjah employing over 1,300 staff, group revenues are estimated at around \$US1 billion annually. In 2005 total assets exceeded \$US690 million on revenues of \$US459 million and its own charitable foundation had an endowment of more than \$US100 million. In 2007 Al-Fahim group was named as "The Best Family Business of the Year" and accordingly received the award for that achievement at the Middle East and Gulf level.

Today, the Al-Fahim family business is directed by a family board composed of eight brothers with effective intentions to preserve and enhance the business seeds sown by their father for the development, prosperity and sustainability of the family company. The third generation is increasingly involved in running the business, and the current management is preparing the

¹⁰ The story of the early Al-Fahim business ventures is one of extraordinary persistence and resilience. On at least four occasions the businesses were wiped out by fire and/or bankruptcy.

¹¹ Bahrain was, at the time, far more developed than Abu Dhabi. Oil had been discovered and exploited in Bahrain much earlier than in Abu Dhabi.

third generation to enter the business and successfully take it through the 21st century whilst at the same time remaining faithful to the family values of ethical behaviour.

4.3 The cultural context of family businesses in Abu Dhabi

The family, with its extended kinship relations, is the central element of the UAE socioeconomic system. The extended family and the family's close allies are the chief arbiters of peoples' values, attitudes, and beliefs. An individual's crucial social and economic support comes from his/her extended families. Social and business life rotates around the family. There is a strong cultural preference that business opportunities should be developed within the family, and then with other ally families. In the UAE, business is viewed as a way to support a family's social standing rather than just an impersonal, wealth-generating, market-driven activity.

In the UAE and Abu Dhabi, Islamic teachings, beliefs and practices form the predominant cultural basis on which all personal, business and economic relations are built. According to Rehman and Askari (2010a) the twelve major tenets of Islamic teaching which underpin business and economic relationships are:

1. Equal economic opportunities for all members of society and economic freedom
2. Economic equity
3. Personal property rights and sanctity of contracts
4. Job creation for all that can and want to work and equal availability of employment
5. Equal availability of education
6. Poverty prevention and reduction; basic need fulfillment of food, shelter, clothing and rest; and alms giving to charity
7. Taxation to meet the unfulfilled needs of society and to address social issues generally
8. Appropriate management of natural resources to benefit all members of current and future generations
9. Abolition of corrupt practices
10. Establishment of a supportive financial system
11. Financial practices that include the abolition of interest
12. The effectiveness of the state in promoting general economic prosperity

Whilst these tenets do not specifically identify family responsibilities, they do form a set of core values for the operation of family business.

Of course the reality may be somewhat different. Most of these tenets are not specific to Islam. However, it might be reasonable to suppose that countries which describe themselves as being “Islamic”, including those, such as the UAE, where the official religion is Islam, might be particularly “family firm friendly”. The twelve dimensions shown above are also measurable using published data. Rehman and Askari (2010b) have developed an “Islamicity Index” based on indicators of the twelve dimensions. They obtained data for 208 countries. The UAE was number 64 in the rankings suggesting that business practices were not particularly “Islamic”.

4.4 The political context

The UAE's political system is constructed upon the base of its constitution. Islam is the official religion, and Arabic is the official language. The UAE constitution deals with the relations between the Emirates as members of the federation, and does not impose a constitutional form of government. The ruling structure of the UAE reflects an allocation of power among the seven Emirates that reflects the general economic and political strength of each emirate. Abu Dhabi holds ninety-four percent of the country's oil reserves, covers eighty-seven percent of the UAE's total land area and has thirty-eight per cent of the population. The UAE is the only example of a successful federation anywhere in the Arab world.

The current President of the UAE is HH Sheikh Khalifa bin Zayed Al Nahyan, who is also ruler of Abu Dhabi Emirate and son of the founder of the UAE, Sheikh Zayed. This patrilineal accession to office reflects cultural norms in the Gulf region and Abu Dhabi's preeminent position in the federation.

The UAE federal decision-making structure consists of a split executive. The Supreme Council of Rulers (SCR) comprises the hereditary rulers of each Emirate and has a president for life. The SCR has both legislative and executive powers and ratifies the passing of all laws and decrees.

There are no legal or constitutional restrictions on the SCR to govern. The SCR, does, however, work towards a consensus, allowing decisions to be made that reconcile many of the major tribal differences that existed prior to federation.

Abu Dhabi is the seat of the federal government and acts as a coordinator in the running of the federal system. In general terms, the federal government is responsible for defence, national macroeconomic policy and the regulation of factor markets, including those for immigrant labour, property and real estate market regulations and monetary policy via the Central Bank. The official UAE government website summarises the division of powers in the UAE as follows:

Under Articles 120 and 121 of the Constitution, the areas under the purview of the federal authorities are foreign affairs, security and defence, nationality and immigration issues, education, public health, currency, postal, telephone and other communications services, air traffic control and licensing of aircraft, in addition to a number of other sectors specifically prescribed, including labour relations, banking, delimitation of territorial waters and extradition of criminals. All other matters were left to the jurisdiction of the individual emirates and their local governments.

Within this framework, there is relative autonomy for the individual emirates as they are responsible for their own development, including economic development, investment, social policy and local byelaws. Individual emirates have always retained control over their own oil and gas revenues.

Below the Supreme Ruling Council there is an executive authority, the Council of Ministers (COM). This is presided over by a Prime Minister appointed by the President in consultation with the SCR. The SCR has the power to instigate policy, and to change or reject laws proposed by the COM and appoint or dismiss the Prime Minister (who is usually the Vice President of the UAE and is currently Sheikh Mohammed Bin Rashid Al Maktoum, the current ruler of Dubai) or any other individual member of the COM or civil servant.

The COM is responsible for most of the day-to-day running of the UAE, as well as formulating the majority of the UAE's policies and can implement new laws after ratification by the SCR. The COM is responsible for the approval of the federal budget, and the overview of all public expenditure. Additionally, it supervises all treaties, regulations, decrees, laws and Supreme Court decisions.

Below the executive branch, there is a parliamentary body: the Federal National Council (FNC) that possesses advisory powers. According to the federal constitution, draft laws are required to pass through the FNC for any review or recommendation. Partial elections to the FNC took place for the first time in 2006¹² and the franchise extended in 2011. Of the forty seats in the council, which are distributed according to the size of each emirate, half were open to election with the other half appointed by their constituent rulers. In 2006 voting was only extended to a 6,889¹³ member electoral college. In 2011 the franchise was extended to 129,000 voters, about 12% of the emirati population, again for half the seats. This extension of the franchise was seen as a response to the regional unrest in 2011 (Dajani and Salem, 2011). However, voter turnout at the election was only 28% (Al Arabiya News, 2011).

The UAE constitution also makes provision for an independent judiciary. The federal judiciary includes the Federal Supreme Court (FSC) and Courts of First Instance. The FSC comprises five judges appointed by the SCR. The SCR also has the power to dismiss these judges.

At the local level, each emirate is still ruled by its own emir and has its own system of local government and byelaws. Furthermore, each emirate is required to plan its own economic strategy, taking into account overall UAE guidelines as expressed in the UAE strategy. Planning is carried out within the limits of federal macroeconomic policy, determined at the national level within the context of a monetary union. The UAE uses a common currency, the Dirham

¹² Prior to 2006 all members of the FNC were selected by the rulers.

¹³ That is 0.88% of the emirati population.

(AED), pegged at an exchange rate of AED3.673 to the US dollar. The UAE is a partial internal customs union with duties financing much of the federal budget.

4.4.1 Government and family firms

As noted above, the relationship between government and family businesses in the UAE and Abu Dhabi is a long and close one built on a history of mutual support and family links stretching back at least to the nineteenth century and, in some cases, longer. The nature of the relationship is not, however, simply a friendly arms-length one. A small economy based in Arab culture is characterized by dense and overlapping relationships between government, economic relationships and kinship ties. This is particularly true of that part of the economy directly owned by Emiratis. Thus, members of some prominent family business firms also hold key posts in government, may be members of the boards of parastatals¹⁴ and government agencies, be close friends of the ruling family and hold important positions in advisory bodies¹⁵. Close and overlapping political and business interests of this type would raise concerns in many developed economies, particularly those that operate in democracies. At the very minimum business interests would have to be made transparent and public and governance processes would be in place to ensure that individuals did not use political positions to further their business interests or those of their families. Such separation is assumed to avoid conflicts of interest and help ensure that politicians act in the interests of citizens rather than their own. To some, close relationships between business and government may be seen as corrupt and a disincentive to enter those markets. However, such relationships are deeply rooted in Arab and Islamic culture and, whilst they may not be well understood by others, are an accepted part of the social, economic and political fabric of the UAE.

¹⁴ Definitions of “parastatal” abound. Here the term is used to include agencies through which the state works indirectly; examples include enterprises with both public and private capital but where the state can exercise a considerable degree of indirect control. Credit rating agencies often use the term “government related entities” to identify such enterprises. In Abu Dhabi the property companies Aldar and Sorouh would qualify as parastatals according to this definition.

¹⁵ See Davidson, 2009: 114-121 for examples of the kinds of posts members of the major families hold. Most of the families identified are also the owners of large family firms.

It might be assumed that family businesses are a force for inertia and would resist change in order to protect their long term interests. This, as Davidson (2005) suggests, is a simplification. Whilst those businesses whose activities are mainly in the oil and petrochemicals sector may be reactionary, those whose business interests lie elsewhere have an interest in change. As Davidson (2005: 226) puts it:

...the UAE's most prominent reformers have tended to be those businessmen and families with closer links to the non-oil related sectors, and therefore those with a greater personal interest in diversification...

4.5 The economic context

The economy of the UAE is very open by the standards of Arab economies and well integrated with the world economy. The UAE has a flexible economic approach: it has embarked upon trade alliances by implementing a partnership policy and has adopted a (regional) policy of privatisation. The aim is to achieve regional economic leadership within a global market framework.

The UAE's oil and gas reserves are the fifth largest in the world. Oil and gas revenues account for 40% of GDP; the figure is 60% in Abu Dhabi. However, oil and gas only accounts for one percent of UAE employment. The oil and gas extraction industry is controlled by the state in each emirate (that is the ruling family). Private sector participation is limited to the supply of services.

The UAE's total population is small. Over the past thirty years since the 1975 census, population has increased from half a million to over eight million now. Exact figures based on the 2010 census have, as of date, still not been released, although the National Bureau of Statistics has recently quoted a figure of just over 8.2 million. The difficulties in determining population size are hampered by the number of illegal immigrants and visa overstayers in the considerably larger expatriate population that forms the bulk of the UAE's labour force. The indigenous

population on the UAE is around twenty percent of the total, and while this has increased over time, immigration has driven total population increase.

There is a low dependency ratio in the UAE, with low unemployment and falling illiteracy, but, the falling birth rate¹⁶ added to an aging workforce will mean a rising dependency ratio in the future, rising from around 1% in 2010 to a predicted 4.3% in 2030. Compared to western economies, these ratios are still very low (Euromonitor, 2010).

The UAE has managed strong sustained growth made possible by strong oil prices, high levels of government investment in infrastructure and the high inward flows of foreign capital in search of safe and profitable investment. Government spending forms 18.5% of total GDP and private spending 81.5%, although the UAE has a grey area in that the separation of government and private sectors is indistinct as many companies are owned by the ruling families.

After oil and gas, manufacturing is the largest single contributor to the UAE economy with 16% of GDP in 2009. The largest industries within this sector are food, pharmaceuticals and building materials. The UAE is mainly desert and therefore, the UAE has little agricultural arable land or forestry (approximately 1.5%). Its contribution to GDP forms 1.7%.

4.5.1 The UAE federal budget

The UAE federal budget for 2010 was AED43.6 billion and partially financed through revenue receipts and investment. The balance was provided by Abu Dhabi (AED17.7 billion) and Dubai (AED1.2 billion). The budget supports health and education (38% of the total), defence (36%) and infrastructure (5%). This figure remains however, remains a small proportion of overall government expenditure in the UAE. For example, consolidated public expenditure (federal expenditure plus emirate level expenditures) in the UAE stood at AED450bn in 2008 and

¹⁶ The fertility rate has fallen from an average of seven children per woman of child-bearing age in the 1950s to less than two in 2010. See Awad and Chartouni (2010) for a detailed discussion.

AED293bn in 2009; the sharp fall reflecting the effect of the economic downturn and lower oil prices and revenues in 2009 (UAE Interact, 2010a; 2010b).

4.5.2 Foreign Direct Investment (FDI)

The UAE was one of the first countries in the region to see FDI as a key driver of growth (UN 2008). FDI rose from 4.84% of GDP in 2003 to 8.41% (US \$13.7 Bn) in 2008. However, these levels (relative to GDP) fell during 2009/10 , partially because other regional competitors began to improve their performance and also because of the global recession, falling oil prices and a reduction in the availability of (mainly government sourced) project finance (Moussa, 2009). In 2008, the UAE attracted 2.8% of all global FDI projects (ranking ninth in the world alongside Germany and Spain); these 480 projects were expected to create over 87,000 jobs (UN, 2009). However, few of these jobs result in increased employment of UAE nationals (Al Jaber et al., 2008). The major sectors for FDI projects have been oil and gas extraction, financial intermediation and insurance and construction. The major sources of FDI inflows have been the UK, Japan, India and the US in that order. Together these countries account for over 60% of UAE FDI inflows.

Foreign investors are attracted by substantial incentives including a tax free regime, no restrictions on transfer of capital, and cheap energy. High quality transport and communication infrastructures are also important (UN, 2009). Al Jaber et al. (2008), in a survey of 81 UAE inward investors, found that the two most important FDI attractors were zero taxation and the ability to repatriate 100% of profits. The UN assessment of FDI performance in the West Asia region suggests that, despite the undoubted successes of some countries including the UAE, further progress could be made in a number of directions. In the case of the UAE this would include:

- Establishing a powerful and independent supervisory authority for business matters
- Encouraging greater participation by the private sector

In the longer term enhancing domestic human capital would provide a greater impetus for innovation and increased productivity (UN, 2009) and FDI would generate dynamic effects through its potential to enhance human capital (Al Jaber et al., 2008) although this would require inward investors to employ a greater proportion of nationals.

4.5.3 The Abu Dhabi economy¹⁷

Abu Dhabi is the richest emirate in the UAE. The population of Abu Dhabi (emirate) was estimated at 1,643,344 in mid-2009 (SCAD, 2010b). UAE nationals make up 24.8% of the total (406,728). The largest proportion of non-nationals is accounted for by the semi-skilled and unskilled foreign labour used on physical infrastructure projects. In terms of age, the population is a young one. Within the Emirati sector, 40% are below 15, 58% within the 15-64 age band, and only 2.2% over 65.

The standard of living, measured by average income per capita, in Abu Dhabi is one of the highest in the world. In 2009 average per capita GDP was AED332,500 (SCAD, 2010a) equivalent to \$90,538. The decline in GDP between 2008 and 2009 was due to the fall in oil prices during that period (ADDED, 2010). Abu Dhabi is used to rapid income growth, however per capita GDP fell by 27% during 2008-2009.

Nationals form 10.5% of the Abu Dhabi labour force. However, due to a 10.5% unemployment rate amongst Nationals, they only make up 9.7% of total employment. Among the 20-24 age group unemployment is 7.2% of males, 24.8% for females and 10.6% overall. Unemployment among university graduates is also high, at 26%. Among nationals approximately 13% of university graduates are unemployed¹⁸. However, the unemployment rate for nationals has

¹⁷ A much fuller account of the Abu Dhabi economy is available from the newly (2008) created Statistics Centre Abu Dhabi (SCAD, 2010a).

¹⁸ Author's estimate derived by taking the total number of graduates and dividing by the total population in the 22-60 age group.

been falling steadily since 2001. Female participation in the labor force is 17.6% and has been slowly rising. 64% of all employment of Emiratis was in public administration and defence.

Table 4.1: Abu Dhabi: Key economic variables

Variable	2007	2008	2009
GDP (at 2009 prices; AED mn)	543,368	666,732	546,476
Contribution of oil to GDP	60%	63%	49%
Population*	n/a	n/a	1,643,344
GDP per capita (2009 prices; AED thousands)	362.3	423.9	332.5
Consumer Price Index (2005 = 100)	118.7	136.4	137.5
Total imports (2009 prices, AED mn)	63,343	90,277	93,872
Working population (thousands)	n/a	889.4	n/a
Wages & salaries (2009 prices; AED mn)	72,201	83,018	90,080

Sources: SCAD (2010a; 2010b; 2010c)

* 2009 population estimate based on a (SCAD) projection from the 2005 census. Per capita incomes are all based on projections from 2005. 2010 census results have yet to be published.

Abu Dhabi has approximately 10% of the world's known and extant oil reserves and around 5% of the global reserves of natural gas. Abu Dhabi accounts for 90% of the UAE's oil. At the current rate, oil reserves will endure for at least another sixty years. The cost of its extraction is also amongst the lowest in the world. However, the oil and gas industry is not a major source of direct employment.

The private sector contributed around 22% in 2008; net of oil and gas the figure was 66% (ADDICI, 2008). More recent estimates give the share of small to medium-sized enterprises to GDP is approximately 28% suggesting that the private sector is growing (Oxford Business Group,

2010). However, the private sector's share of investment¹⁹ is stated as 52%, 70% net of oil and gas investment. The bulk of this investment (60% net of oil) is in the services sector.

Table 4.2: The share of oil and gas in the Abu Dhabi economy

Activity/Economic variable	Share of oil and gas %
GDP 2009 (2008)	49.4 (60.9)
Total exports 2008	96.8
Government revenues 2009 (2008)	89.2 (92.0)
Gross Capital Formation	14.5 (11.6)
Wages and salaries 2009 (2008)	6.6 (6.6)
Total employment (2008)	4.1
Employment of nationals: total	6.4
Employment of non-nationals	4.5

Sources: SCAD (2010a; 2010b; 2010c)

4.5.4 The “curse of oil”

Empirically, it has long been observed that some countries with abundant natural resources tend to grow more slowly, all other things being equal. In particular, the possession of a rich natural resource base can generate a number of problems, which, in extreme cases, have been labeled the “natural resource curse” (see Ross, 1999; van der Ploeg, 2008 and Frankel, 2010 for comprehensive surveys of the phenomenon). There are a number of ways in which “the resource curse” might manifest itself in Abu Dhabi (see Zamzam, 2011 for a discussion). The one which is most relevant here is the supposed tendency to promote rent-seeking behavior.

¹⁹ Measured by GFCF, Gross (Domestic) Fixed Capital Formation

The simplest definition of rent-seeking is the expenditure of resources attempting to enrich oneself by increasing one's share of a fixed amount of wealth rather than trying to create new wealth. In the case of an oil-rich economy rent-seeking is activity aimed at securing a share of the pre-determined oil wealth rather than activity directed at generating profits from other competitive business activities. When the particular target sector of rent-seeking is a government monopoly, for example oil extraction in many countries, rent-seeking will be directed towards lobbying the government to fund special projects and activities with the sole aim of acquiring resources for private use rather than using them to benefit society as a whole²⁰. Given the close relationship between the major family businesses and the government in Abu Dhabi it is reasonable to suppose that they might indulge in rent-seeking activities.

Hertog (2010) argues that two of the conditions which could promote rent-seeking are not present in the UAE. Firstly, there is little need for the state to indulge in the political use of resources to mobilize political support (economic populism), and secondly the substantial degree of autonomy enjoyed by the government. State-owned enterprises in Abu Dhabi are professionally managed and are not used as means of providing business favours and soft contracts to local firms.

On the other hand, it is very difficult to separate out the private and public sectors in an economy like that of Abu Dhabi. The government is the major investor in economic infrastructure. Even where an enterprise is legally within the private sector the influence of government on the health of some private enterprises is often perceived to be so great that international credit rating agencies regard them, for financial purposes, as being part of the public sector (BI-ME, 2010c). Government influence arises from it being a major contractor and its relationships with the financial sector. Thus much of the financial and other risk borne by private sector companies depends on the government's conduct of contracts, for example speed of payment.

²⁰ The most extreme forms of rent-seeking activity involve bribery and corruption. However, the UAE is not particularly prone to such business practices.

4.5.5 Employment of nationals

Whilst it is not known what proportion of UAE nationals work in the private sector, it is believed to be as low as 5% (Fox, 2008). In stark contrast to the public sector, an estimated 98% of those employed in the private sector are non-nationals (ADCCI, 2009). In part this seems to be a product of an association between the private sector and vocational occupations. In particular there seems to be a social stigma attached to studying for vocational trades in the Emirate (Western Region Development Council, 2010: 159) Vocational occupations are associated with poor social standing and financial inferiority.

In Abu Dhabi the government is the main employer of nationals and government jobs are highly prized for their status, financial rewards and working conditions. A very small proportion of UAE nationals accept employment in the private sector (Godwin, 2006; Chartouni, 2009; Mashood et al; 2009). This raises the price of labour for the private sector and makes it difficult to recruit nationals even in the presence of a policy of shifting employment opportunities from expatriates to nationals (“Emiratisation”)²¹. The reasons why Emiratis prefer government employment include their perceptions of their status which requires

...comfortable white-collar jobs in managerial roles whether or not they are qualified for such positions... (WEF, 2008:12)

The aspirational elements are compounded by higher salaries and better working conditions, greater job security and flexibility in hours. Private sector employers see nationals as less productive and more expensive.

4.5.6 Family firms in the Abu Dhabi economy

There is no separate data collected or available on family firms in Abu Dhabi. Given the nature of family businesses, the relative lack of public reporting requirements they face and the paucity of official economic data in Gulf countries, it is very difficult to give an accurate estimate of the share of economic activity accounted for by them. In a report published by

²¹ See the official website <http://www.emiratisation.org/>

Emirates Today (2007) it was stated that a total of 5,000 family businesses lead around 90% of the business activities in the Gulf States; these businesses employed 70% of the labour force. Other estimates give the number of family companies in GCC states at more than 30,000, with investments of up to 500 billion dollars locally and worldwide, and that at an aggregate turnover of around two trillion dollars, represent approximately 75% of the Gulf's overall economic capacity. These firms employ more than 15 million workers.

Al Saidi²² (2010) estimated the Gulf family business sector comprised about 700 companies and was worth approximately 500 billion US dollars. Whilst these two estimates differ markedly in some respects, particularly in the number of entities, they give some idea of the scale of family business in the region. The Al-Bayan newspaper (2009) saw family businesses in the Gulf states as the principal base of the GCC economy and made a call to the government to help in sustaining this kind of business. An interview with Saeed Al-Fahim²³ published in Al-Eqtasad Alyawm (2008) asserted the importance of the family business in UAE as an economic unit. A 2006 UAE survey²⁴ estimated that the average age of family companies in the Gulf region was 23 years while the global average is 35 years. Al-Fahim (2004) comments that family companies in the UAE are still relatively young as most of them were started in the 1960s or 1970s²⁵.

However, it is the case that all family firms are in the private sector and that the bulk of the private sector is comprised of family firms. Whilst it would be dangerous to treat family firms and the private sector as being coterminous, there is sufficient overlap to merit discussion of the private sector as a proxy for discussion of family firms. The contribution of the private sector to Abu Dhabi GDP was estimated at 22% in 2008; net of oil and gas the figure was 66% (ADDICI, 2008). More recent estimates suggest that the share of SMEs in GDP is approximately

²² Nasser Al Saidi; Chief Economist at the Dubai International Finance Centre

²³ Chairman of the Al-Fahim Group

²⁴ Conducted by the Dubai Ethics Resource Center (DERC) and the Data Management and Research Department (DMRD) of the Dubai Chamber of Commerce and Industry (DCCI) on Corporate Responsibility (CR) in the UAE.

²⁵ Although, as the early part of the chapter shows, most family companies had their roots in earlier business activities. However such activities were not carried out by companies as such.

28% suggesting that the private sector is growing (Oxford Business Group, 2010). However, the private sector's share of investment²⁶ is stated as 52%, 70% net of oil and gas investment. The bulk of this investment (60% net of oil) is in the services sector.

It is, for the reasons already made clear, impossible to say with any degree of confidence what proportion of private sector revenue is generated by the largest family businesses. In 2009 the GDP of Abu Dhabi was approximately AED220Bn after netting out oil revenues (which go directly to government), utilities (nationalized), defence and public order and social services (SCAD, 2010a). Based on the very limited data presented in Chapter 5 the eleven family business groups studied here probably have an aggregate turnover which would account for between 25% and 50% of private sector activity. Employment estimates are even more tenuous and are not attempted here. The major problem is that by far the largest proportion of the workforce, 72%, (SCAD 2010a; SCAD 2010b) is comprised of non-nationals in semi-skilled or unskilled occupations. Much of this labour force is employed on short term contracts in the construction industry or the services sector. In many cases the employer is identified as an agency which supplies labour to the firms on a contract basis. Linking employment to specific firms is thus impossible on the basis of currently available published data.

Table 4.3 lists the largest family firms in Abu Dhabi. By "in" is meant having their headquarters in Abu Dhabi and being generally recognized as being an "Abu Dhabi firm and family". Whilst such judgments may appear a bit loose they have been reached on a consensus basis. The researcher initially drew up a list based on his own knowledge and by consulting information provided by business intermediaries²⁷ (directories, information web sites, listings etc.). This list was then shared with other experts, including those interviewees identified in Chapter 5 and executives of other family firms. The list of eleven family firms in Table 4.3 therefore represents the consensus view of a group of experts. The CEOs of these firms are also the interviewees whose opinions are reported in Chapter 6. The information given in the data column has been drawn from the web sites of the companies themselves.

²⁶ Measured by GFCF (Gross (Domestic) Fixed Capital Formation).

²⁷ This work only reinforced the lack of quantitative data. None of the sites consulted could provide any for the firms listed, even on a charging basis.

Table 4.3: Major family firms in Abu Dhabi

Company name	Year founded	Activities	Data
Al Jaber Group http://www.aljaber.com	1970	Over 30 companies in construction and engineering, logistics, trading, industrial production, technology and environmental management.	50,000 employees Assets AED10bn
Al Fahim Group http://www.alfahim.com	1958	Autos, hotels, industrial, property, travel.	1,300 employees Turnover AED3.7bn
Darwish Bin Ahmed and Sons http://dbasons.com	1970	Civil engineering, real estate, heavy equipment, hydraulics, air conditioning, IT, travel and tourism.	
Al Sayegh Brothers Trading Company http://www.alsa-g.com	1950	Electronics, household and healthcare, food, IT.	600 employees Turnover AED 880mn
Al Ghaith Group http://www.algaith.co.ae	1966	Oil field supplies and services, real estate, transportation, hotels.	
Al Saman Group http://www.sfiuae.com	1968	Retail, travel and tourism, real estate.	Employees “several hundred people”
Al Nasser Holdings http://www.anholdings.com	1977	Over 75 subsidiaries in retail, manufacturing, oilfield supplies, real estate, dredging.	>5,000 employees
Bin Hamoodah Group http://binhamoodah.ae	1967	Trading, industrial services, ICT, construction, real estate management, manufacturing, automotive.	
Ali and Sons http://www.ali-sons.com	1979	Autos, oil and gas, retailing, property management, manufacturing, ICT, merchant banking.	
Mohamed Rasool Khoury and Sons	n/k	Jewellery, watches, retailing.	
Omeir Bin Youssef Group http://omeir.com	1956	Autos, travel management, real estate, construction, oil and gas supplies, military equipment supply.	

4.6 The legal context

As with much of the legal framework of the UAE, commercial law is derived from a mixture of Islamic legal principles as expressed in Shari'ah Law (see Perry, 2007 and Foster, 2010) and ideas drawn from western common law as well as Egyptian legal traditions (Cerimagic, 2010). The western influences were introduced to help local companies compete in a global market and encourage foreign direct investment (FDI). The principles of Islam reflected in Shari'ah law most relevant to commercial transactions are that it seeks to provide justice and fairness to both parties. It is presumed that business dealings will be conducted in a climate of mutual trust and respect, thus business people should

...always be mindful of being open and transparent in their dealings and to ensure the fairness of their offers and the fairness of the outcomes of these agreements is maintained... (Cerimagic, 2010:46).

Companies in Abu Dhabi are regulated by the federal laws of the UAE, particularly Federal Law No. 8 of 1984²⁸ as amended by the Federal Law No. 13 of 1998 and the Federal Law No. 4 of 2000²⁹. All companies in existence prior to 1984 were required to re-register and comply with the new code. The major legal requirements which affect UAE family firms can be summarised as follows:

- The nationality of every company established must be UAE
- A minimum of 51% of the capital must be held by an individual UAE citizen, which can include a "corporate citizen", that is a UAE established company³⁰
- Companies must take one of seven prescribed legal forms

The exceptions to these requirements are for companies set up in free zones (see Gale, 2011) and companies in oil, gas, energy and utilities sector which are government-owned. Of the

²⁸ Published in the Official Gazette No 137, April 1988

²⁹ The standard reference work on UAE company law is Mahmoud (2008).

³⁰ There has been pressure to raise the foreign ownership limit to encourage FDI and improve the UAE stock market status. However such pressures are being resisted. See BI-ME (2011).

seven types of legal company form, four are of relevance to the development of family firms and are briefly outlined below.

4.6.1 General Partnerships

Prior to 1984 most family firms were constituted in a way which most closely resembles the General Partnership form of the 1984 Law. Note that General Partnerships have joint and several unlimited liability, that is all partners have an unlimited exposure to and responsibility for the debts of the company. They also have to be 100% UAE owned. Surprisingly, perhaps, some large family firms in Abu Dhabi retain this traditional form. For example, Alfahim remained a General Partnership company until after the death of the founder and the impetus for change was the transfer of assets and activities to the second generation. The reasons for clinging to what seems a highly risky and outmoded model are rooted in the history of Arab family firms. When such entities were smaller, their reach geographically much less and trading partners drawn from the same culture and often personally known to each other, the assumption of unlimited liability was seen as a measure of trust and credibility in the business. To some extent this has served family businesses reasonably well in recent times in maintaining good relationships with their lenders. The business which is willing to put everything on the line as security for loans might well be able to borrow at lower rates. Unlimited liability may be taken as a clear sign of the parsimonious tendencies of the owners. However, the arguments for assuming unlimited liability are becoming less persuasive as firms grow and extend their business relationships internationally.

4.6.2 Limited Liability Companies (LLCs)

In practice many family firms are established as Limited Liability Companies (LLCs); the specific requirements for LLCs are:

- A minimum share capital of AED300,000³¹
- Public subscription for raising capital is not permitted

³¹ Although this is likely to be reduced substantially in the near future to encourage start-ups.

- There must be a minimum of two and a maximum of fifty partners (with an identified UAE national single shareholder holding at least 51% of the company)³²
- Each partner is only liable to the extent of their share in the equity capital
- The company cannot carry out business in the banking, insurance and investment services sector
- The company must have up to five designated managers who are responsible for the running of the company; managers may also be partners
- If the company has more than seven partners then a Supervisory Board must be established; the Board is responsible for inspecting the accounts and other company documents and arranging for independent audit of the accounts. The Board may also require the managers to report to it as they see fit. The Board must contain at least three partners.
- Audited accounts should be submitted to the Ministry of Economy and Commerce on an annual basis
- All partners should be invited to attend a General Meeting at least once a year to approve the accounts, appoint the managers, members of the Supervisory Board and the auditors and any other relevant matters raised by any partner
- The auditors shall attend the General Meeting to present their view on issues relating to their assignment (in particular with regard to the balance sheet) and read out the report (prepared as per the Law) before the attendees.
- All these arrangements should be set out in a Memorandum of Association to be deposited with the Register of Commerce at the Ministry of Economy and Commerce.

Once an LLC is registered it is considered a separate legal entity with a corporate personality distinct from its partners. More detail on the requirements for LLCs is provided by Horwath Mak (2011).

³² This provision prevents foreign companies from setting up in the UAE without a local sponsor.

Other than the above overarching rules and regulations there are no specific rules and regulations that apply to LLCs in respect of corporate governance. Whilst these requirements may seem unexceptional, they may be surprising in their omissions. In particular there is no legal requirement or provision in UAE commercial law for public disclosure of any business or financial matters.³³ Disclosure is widely regarded, by Arab lawyers as well as their counterparts elsewhere, as a way of monitoring management performance and discouraging fraud (Sinjakli, 2002). However, it may be that it is assumed that Shari'ah Law is sufficient to ensure voluntary disclosure of commercial information to parties to a transaction where it is needed (see the quote above) and that legislation is not needed. However, where larger companies are involved, the market discipline which accompanies public disclosures may be missing.

The reports from the General Meeting, including the audited accounts, are only lodged with the Ministry but are not published by them. Nor is any data extracted from them for publication in any summary form, irrespective of whether individual LLCs can be identified or not. The ability of individual partners to make LLC business dealings public is usually constrained by mutual non-disclosure agreements. In addition the limited liability status of the company should be made clear in company names and on all correspondence. The amount of capital should also be quoted on company letterheads, invoices and other relevant stationary. This requirement is intended to ensure that all those dealing with an LLC are clear about its limited liability status and recognise the role (designated managers) of those who they are dealing with.

4.6.3 Private Joint Stock Companies

Some larger family firms are constituted as Private Joint Stock Companies (PJSCs) or are planning to adopt this form, in whole or in part, in the future. Article 215 of Federal Law No. 8

³³ The only disclosure requirements under UAE law can be summarised as follows:

Each year the directors must provide to shareholders the company's annual report and financial statements. The directors must also lodge the financial statements and particulars of the company's share register with the UAE Ministry of Economy and the "relevant authority" for the emirate in which the company is established. Members of a LLC's supervisory board are entitled to access all of the company's books and documents.

of 1984 Concerning Commercial Companies defines a private joint stock company as being a company founded by at least three people and whose shares may not be floated to public subscription. The founding members must fully subscribe to the total capital, which may not be less than two million AED. Except for the provisions made on public subscription, all the provisions provided in the law for a public joint stock company apply to a private joint stock company.

Every joint stock company is required to hold a General Assembly within the first four months following the end of its fiscal year, which in most cases should be between January and April. The General Assembly comprises all shareholders; a representative of the Ministry of Economy has the right to attend although this is rarely taken up. There are specific rules for the convening of the General Assembly which are mainly guided by underlying principles of equal openness, transparency and availability to all shareholders. There are certain items that have to be on the agenda, such as the hearing and approving the Board of Directors' Report and the Auditors' Report, discussing and approving the company's balance sheet and profit and loss account, the board's proposal for distribution of dividends and the discharging of the directors' liabilities. The General Assembly is the authority to appoint new and release old directors.

4.6.4 Public Joint Stock Companies

Some family firms are establishing private joint stock companies as a potential route to becoming public (joint stock) companies (PUJSCs). The law permits a private joint stock company to be converted to a public joint stock company if the following conditions from Article 217 of the Law are met:

1. That the nominal value of issued shares is fully paid up.
2. That a period of not less than two financial years had expired.
3. That during the two years preceding the application for conversion, the company had achieved an average net profit of not less than ten percent of the capital, distributable to shareholders.

4. That a resolution of the extraordinary general assembly for the conversion of the company is adopted by a majority of three quarters of the company capital.

Under the 1984 Law, PUJSCs must have share capital of at least AED10 million and are required to offer their shares for public subscription. There must be a minimum of three and a maximum of fifteen founders who, between them, own between 10% and 45% of the company. A minimum of 51% of the company must be owned by UAE nationals. The Chairman of the Board must be a UAE national. One implication of this is that any flotation (Initial Public Offering - IPO) of a company must offer a minimum of 55% of the company for sale, a figure which would result in loss of family control. However, recent corporate law changes are expected to produce a rise in IPOs. The Commercial Companies Law now allows firms that wish to list to retain a 70% stake in their companies, as opposed to 45% under previous regulations. However, the 70% must be held by the family, defined as the founder and/or and his immediate bloodline.

As family firms diversify, grow and restructure the opportunity arises for them to float off parts of their business portfolios through converting them into PUJSCs via an IPO. This affords family firms the opportunity to retain their traditional business interests associated with the family name at the same time as generating external investment funds for expansion into new areas of business. However, there are downsides to converting to PUJSC apart from the greater disclosure of commercial data. One possibility is that the risk of claims by shareholders against the management of the company has, historically, been perceived as remote in family firms. This may increase if firms become public. The impact of the international financial crisis continues to be felt in the UAE. There is a growing emphasis on the need to reinforce UAE regulatory controls and standards of corporate governance. The legislative changes that have been introduced or are mooted in the UAE introduce many western style corporate governance elements to the UAE. The adoption of international accounting standards in the region is also driving change, directors and officers are going to have to pay much more attention to their duties and potential liabilities as corporate governance generally becomes a more prominent issue. Such requirements will most likely be felt initially in PUJSCs followed by private companies.

4.6.5 Commercial agencies

A “commercial agency” is defined in UAE Agency Law³⁴ as

...the representation of a Principal by an Agent on the distribution, sale offer or presentation of commodities or services within the State...

This is interpreted broadly and includes franchising and distribution agreements.

In order for Agency Law to apply:

- The agent must be a UAE national or a company wholly owned by UAE nationals
- The relationship must be exclusives either in relation to territory or to a specific product
- The relationship between the agent and principal must be registered with the UAE Ministry of Economy and Planning³⁵

Many family companies either began life as agents or have acquired agencies. These are notable in the autos, watches and jewellery, parts, IT and other high value sectors. Agency agreements confer local monopolies³⁶. Agency agreements tend to favour the agent over the principal. Prior to 2006 the ability of a principal to terminate an agency agreement was quite difficult; acceptable reasons had to be given and the case adjudicated upon by the Commercial Agencies Committee. If the Committee was not satisfied there were valid reasons the principal could refer the issue to the courts. A 2006 amendment to the law abolished the Commercial Agencies Committee and left disputes to the courts. One consequence of this was fixed term agency agreements could be terminated by either side by simply giving notice of intention not to renew. This allowed principals to shop around for new agents and exert power on existing agents through threatening to terminate.

The 2010 Law reversed some of the 2006 amendments and introduced new ones. In particular, the Commercial Agencies Committee was reinstated and a new provision introduced preventing

³⁴ The substantive law is Federal Law No. 18 of 1981 (Agency Law). This was amended by Federal Law No 2 of 2010.

³⁵ Via the Commercial Agencies Committee.

³⁶ A “territory” is defined as an individual emirate, multiple emirates or the UAE and a product an entire range, for example Mercedes cars rather than just particular models.

foreign principals from terminating or refusing to renew an agency unless they could show (a material reason justifying its termination or non-renewal". In addition the Law prevents the registration of new agencies until any disputes between existing principals and agents have been resolved in some way or other³⁷. The Law also prohibits principals from importing directly in competition with a local agent. This provision, together with the requirement that all companies registered in the UAE must be majority UAE owned, creates a barrier to entry to the UAE market in favour of local companies³⁸.

4.7 Threats and challenges to family businesses in the UAE

Al Saidi (in Al-Bayan, 2009) outlines the challenges that face family businesses in the Gulf area. These challenges can be classified into three categories:

- Finance for growth; access to external funding may be limited and internal sources of funding insufficient for growth needs.³⁹
- Diversification; economic conditions and the competition could easily drive family firms out of business if they are not more diversified.
- The issue of succession; disagreements over succession and a lack of prior preparedness for it could be direct causes of breakdown of the family business structure and may force restructuring as public holding companies.

Furthermore, preparing future leaders and owners of businesses is considered to be one of the most challenging tasks facing family firms in the Middle East because of the additional complexities that can be faced as a result of inconsistency in business and family goals, and different expectations for each generation. In addition, there are other (external)

³⁷ Further information is given in Murray (2010).

³⁸ Whilst this may seem unfair it is argued that powerful foreign principals have, in the past, exploited local agents to the detriment of the economy. The Law is therefore "biased" in favour of agents. See Gilligan and Smith (2011).

³⁹ Although this would suggest that the capital market is not capable of accurately assessing risk in the case of family firms or views them as being inherently more risky than other types of firms. Alternatively, it may be that family firms are unwilling to provide lenders with the kind and extent of information they need in order to be able to assess risk accurately.

environmental factors, such as changing social values, new technology, increased competition and political pressures, all of which create more pressure on the family business and the future roles of directors (Davis, et al., 2000).

4.7.1 The “third generation” problem

Al-Eqtasad Alyawm (2008) published an interview with Saeed Al-Fahim, who argued that the most threatening period for a family business is the third generation phase where the chances of conflict are more likely to take occur. According to an economic report published by Al-Khaleej (2009), less than 6% of family businesses were able to continue their business activities after the third generation⁴⁰. Many family businesses in the Gulf area have been passed from the first generation to the second; the handover to the third generation will, for many firms and families, be a major issue in the next twenty years.

4.7.2 Weak corporate governance

According to a report produced by Dubai Chamber of Commerce and Industry (DCCI, 2006), sound governance in family business is essential to help them survive and prosper. Good governance is seen as a remedy for family-owned business sustainability at the same time its absence is seen a reason for problems experienced in the UAE.

Family disputes, when not tackled with caution and skill, are one of the most important issues that may lead the family business to fail or cease to trade as a family-owned enterprise. The inner circle is often characterized by the internal conflict that can result from losing the ability to separate business relations from personal and family ones. Such disputes result in hindering the business and slowing its progress and development. In addition, disputes will also make the business environment more hostile and increase employee turnover, particularly among business professionals and executives. The Honorary Chairman of Al Fahim Group, Mohammed

⁴⁰ Estimates abound of the survival rates of family businesses through the generations. However there is very broad agreement that less than 10% of family businesses still survive as such into the fourth generation.

Al-Fahim (2004) suggested that family businesses should develop clear internal policies and structures to handle any difficulties or disputes that may come up among family members. He argued that this is one of the most important issues that must be dealt with when considering the sustainability of family businesses.

Transparency in reporting on a widening range of dimensions of performance, both operational and financial, is critical for attracting international investors, especially as family businesses increasingly compete in a global financial market for access to capital. Access to easy financing from regional banks on the basis of local reputation (“name lending”) is becoming more difficult both as a result of global financial crisis and as regional banks themselves compete in the global market and move towards international standards and the adoption of more sophisticated risk management systems. The tendency, reinforced by current company law, for family firms to be secretive can lead to a degree of mistrust by outsiders. Despite the high regard in which the founders of family firms are held, younger generations may question the tendency of the “old generals” to maintain the status quo. Secrecy can often be interpreted as conservatism.

The appropriateness of simple and often informal governance structures developed to suit small closed economies and enterprises with very simple structures and operations is questionable in a complex and open modern economy and for diversified conglomerate firms. Family firms need to find ways of being clear about the distinctions between ownership, control and management and create governance and management structures which reflect the separation of roles. Greater transparency is required if family firms are to access new sources of long-term capital to finance further growth; internal sources and traditional relationships with local banks may not be sufficient or competitive enough to meet future needs.

The larger family firms have often grown in unstructured ways. They have rambling portfolios which have little business coherence in terms of management, technical or resource bases, risk reduction or strategic positioning. Most family firms in the region have not changed their business models or structures to reflect the realities of their current activities (PwC, 2010; A.T.

Kearney, 2011). However, the family firms themselves may not agree with this criticism (DIFC, 2009).

4.7.3 Access to resources for growth

Family firms in the Gulf, and Abu Dhabi in particular, have enjoyed access to abundant liquidity derived, ultimately, from oil revenues. In addition, they have had access to low-cost labour from neighbouring countries in southeast Asia and the Indian sub-continent. However, the future may not be so benign. The recent global financial crisis has not left Abu Dhabi untouched and there is no guarantee that funds for private sector expansion will be so freely available in the future. Indeed, as a recent report points out (A. T. Kearney, 2011), the global economic slowdown may have had a disproportionate effect on the traditional high-growth sectors of real estate, construction, hotels and financial services, all of which are dominated by family businesses in the region. The availability of capital is likely to be rationed by the global financial markets rather than resulting from the recycling of oil revenues through an insulated domestic financial system. Family firms are often under pressure to grow to satisfy the aspirations of new generations coming into the business. In addition access to cheap semi-skilled and unskilled labour is less likely to provide a competitive advantage as firms move away from construction projects linked to physical infrastructure development into other areas more dependent on skilled and professional workers. Whilst the supply of labour in semi-skilled and unskilled categories may remain plentiful, Abu Dhabi competes in an international market for talent at the higher end of the market. This issue is compounded by the failure of the UAE higher education system to provide an adequate supply of qualified technical, managerial and professional workers to satisfy the needs of the local labour market (Ruscoe, 2008; Zamzam, 2011).

One potential avenue for growth is to convert the family business into a joint stock company. However, according to company law in the UAE, the family business wanting to access capital via public shareholding must offer 55 per cent of its shares for public subscription. This is unattractive to the family owners who want to retain majority control of the companies they

founded and built up. As noted above, many family companies in the UAE are quite young, and in several cases the original founders, although now old, still hold the reins of their companies. As discussed in Chapter 2, this can lead to inertia and risk aversion and is a product of poorly planned succession.

In addition many family companies in the Gulf generate much of their income from agency agreements with foreign multinationals⁴¹ and would not wish to place such arrangements in potential jeopardy as result of changing their legal format.⁴² The poor historical performance of regional stock markets, as in the case of the UAE in 2000, is also a disincentive. The transformation of family companies into joint stock companies would force owners to uncover the secrets of the size of their wealth and to clarify the true financial position to outsiders. Many businessmen in the UAE would be unhappy to do this, as the absence of published accounts of activities and performance of such companies attests.

Family firms in the UAE are unwilling to transform themselves into joint stock companies for a number of reasons⁴³:

- Unwillingness to submit to the controls exercised over public shareholding companies by the Capital Market Authority.
- Unwillingness to disclose company 'secrets', especially financial ones; the Capital Market Authority requires public shareholding companies to publish full financial statements, as well as to disclose material information which can be expected to have a significant impact on share prices and the decisions of investors.

⁴¹ For example, Al-Fahim have the Abu Dhabi agencies for Mercedes and Jeep; Ali and Sons for VW, Audi and Porsche and Omeir Bin Youssef for Peugeot. This type of pattern is repeated in many other sectors, often with the same family businesses occurring.

⁴² Logically there would be no reason to suppose that an agency agreement would be under threat just because a private company became public. However, the most lucrative agencies were granted by the ruling family as monopolies to their allies and there might be temptation to break such links if the families lost control of the companies in question.

⁴³ Private equity may provide an alternative or a stepping stone towards public quotation (Dow Jones, 2007). However some of the objections are still relevant even without the transparency and disclosure requirements accompanying a stock exchange listing

- The existence of additional legal procedures and requirements governing public shareholding companies, both at establishment and when increasing capital, and the consequential time, effort and costs that spent on these procedures.
- The legal responsibility of the members of the company's management to shareholders of the company and society at large, for example the need to adhere to higher environmental standards
- Unwillingness of owners of family firms to share power or profits with other parties.
- Fear of losing complete control of the company by the family.
- Unwillingness to lose the family name of the company, especially if the name was associated with the greatest grandfather of the family, which carries the social status of the family.

A broader view of the potential limits to growth is provided by the resource based view. The resource based view of the firm argues that sustainable competitive advantage derives from the possession of a collection of resources which are valuable, rare, cannot be imitated and do not have any substitutes (Barney, 1991). Successful family firms have a number of resources which satisfy these characteristics, for example “familiness” (Habbershon and Williams, 1999; Chrisman et al., 2003), lower agency costs, trust leading to lower transaction costs (Williamson, 1996:153) and loyalty. An alternative set of resources which Abu Dhabi family firms may rely on include ownership of agency agreements and close ties built up with government and rulers. However, Abu Dhabi itself wishes to move from an economy based on exploiting a natural resource to one which is knowledge-based (ADDED, 2007). In particular the current reliance of the Abu Dhabi economy and family firms on cheap labour and capital will not be enough to ensure that a shift towards high technology industry will succeed. Family firms may need to identify and acquire additional resources if they wish to grow significantly in the future, particularly given that their current unique resources are not exploitable beyond the domestic market.

One example of the kinds of resources which may need to be acquired comes under the general heading of intellectual property. Despite the strength of family companies in the Gulf in general and the UAE in particular, many such companies do not have any products or trademarks of their own, or own any patents or other intellectual property; many family companies still play the role of the mediator, distributor or agent in promoting the products of international companies in the local market. Until now family firms have had little incentive to develop or acquire intellectual property; agency agreements and other partnership arrangements have allowed them to appropriate the brand value and intellectual property of the principals in the principal-agent relationship. At a national level the low levels of investment in research and development and consequent shortcomings in the higher education system have also played a part (ADEC, 2010; Zamzam, 2011).

The future of agencies and trade monopolies is threatened as a result of open markets and free trade - promoted by the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) - and family companies are threatened by the loss of major sources of revenue. The principle of free trade and open markets is not consistent with the current UAE law of commercial agencies which confers local monopolies. This law is seen as an impediment to trade which could be removed by the GATT, and thus deprive local monopolists, many of which are family firms, of exclusive representation of foreign companies and the significant profits from such relationships. In future it may be the case that family companies should seek to enter into strategic partnerships with the companies they represent and contribute to product development and the opening of new markets, thus building on past experience to become the natural partner of choice.

4.8 The Abu Dhabi Vision 2030

The Abu Dhabi government has defined its plan for the future in the Economic Vision 2030 (ADEC, 2007) and has made a strong fiscal commitment to it. The plan is based on a strategy of diversification away from oil and gas based on faster growth in other sectors, notably tourism, media and creative industries, transport and logistics and health. The Vision has already

established itself as a reference point for all major decisions on economic development and investment in the emirate. However, as its name indicates, the Vision 2030 is an aspirational document rather than a detailed plan. The Vision will be supported by sectoral five year plans focusing on implementation.

The overall aims of the Vision are usefully summarised in the following quotes:

...The economic vision as set out in this document seeks to ensure a secure and stable future for the people of Abu Dhabi. The ultimate goal is to produce a society that is confident in its growing role as a global economic centre, and one which shows it has the ability to transform itself to meet the needs of tomorrow... (Page 128).

...By 2030 Abu Dhabi intends to build a sustainable and diversified, high value-added economy that is well integrated into the global economy and that provides more accessible and higher-value opportunities for all its citizens and residents... (Page 16).

The Vision is organised around nine “pillars” and four priority areas. The pillars are:

- A large empowered private sector
- A sustainable knowledge-based economy
- An optimal, transparent regulatory environment
- A continuation of strong and diverse international relationships
- The optimisation of the Emirate’s resources
- Premium education, healthcare and infrastructure assets
- Complete international and domestic security
- Maintaining Abu Dhabi’s values, culture and heritage
- A significant and ongoing contribution to the federation of the UAE

The four priority areas are:

- Economic development
- Social and human resources development
- Infrastructure development and environmental sustainability

- Optimisation of government operations

The Vision does not say anything specifically about the role of family firms. However, since such firms are a very large component of the private sector, it is reasonable to assume that any references to the role of the private sector also apply to family firms. The desired scale of the public-private shift in economic activity can be judged from the estimated changes in share of Abu Dhabi's GDP. In 2010 the private sector share in GDP was 21.4%; by 2015 this is planned to rise to 32% (DPE, 2008). In employment terms the desired shift is even greater given that the capital intensive oil sector provides a larger proportion of GDP (61% in 2008) than it does of employment (4.1% in 2008) (Zamzam, 2011). A major element of diversification is investment in the non-oil sectors of the economy, a policy which some family firms at least, will likely be very supportive of since it offers major expansion opportunities. The Vision specifically sees a stronger role for the private sector in the Abu Dhabi economy as result of expansion of non-oil activities. On the other hand, the opportunities for rapid growth and diversification may have a downside. In particular family firms may find complexity a difficult issue. Complexity may be difficult to control using the traditional management styles and structures prevalent in many of the UAE's family firms.

The Vision also targets a reduction in public sector employment and expansion of private sector employment to fill the gap and help ensure that there is a rich, diverse and well-paid range of employment opportunities for nationals in particular. This will require a significant change in attitudes by nationals who have always seen the government as the employer of choice; a major element of the ruling bargain has always been an implicit guarantee of public sector employment for all nationals who want it. The government's policy of streamlining public sector employment by outsourcing services to the private sector may go some way to accomplishing the shift, but there will still be a gap.⁴⁴ Abu Dhabi also wishes to become a centre for regional

⁴⁴ The experience of outsourcing government services to the private sector has not been a happy one in all cases and all countries.

innovation and entrepreneurship (BI-ME, 2010c; 2010d) and expects the private sector to play a major role in achieving this aim.

4.9 Summary

At a recent seminar Al Saidi (BI-ME, 2010e) summarized the position of family businesses in the UAE as follows:

...Family businesses, which account for some 90% of businesses in the Middle East, have a major role in the region's growth, job creation and competitiveness. Their sustained success is key to the region's long-term economic development. As family businesses deal with the challenges posed by the financial crisis, increased international openness of the Gulf region as well as their own expansion, they need to adopt newer ways of running their business and managing their wealth in order to remain competitive and sustainable. Most importantly, family businesses need to put in place strong corporate governance and succession plan frameworks...

Family businesses in Abu Dhabi have been built on the strength of common interests and shared backgrounds, including close ties with ruling families and networking with other businesses in the region. Many family businesses have used licensing agreements to develop pivotal relationships with large international companies. Such licensing agreements have, in many cases, created local monopolies. However, this business model may not be sustainable in the future. Increasing international pressures, the long-term aspirations of Abu Dhabi as expressed in the Vision 2030 and the internal pressures created by growth and the passage of generations all point to the need for family businesses in Abu Dhabi to adapt and change. However, change will occur against the cultural background of Arab kinship ties, the intimate binding together of family, kinship, personal and social ties with business and political relationships, all of which take place in the context of Islamic beliefs.

Chapter 5

Expert Interviews

5.1 Introduction

This chapter initially describes the process of developing, conducting and analysing the semi-structured expert interviews. It then moves on to present the results of the first set of interviews with senior people who have a broad perspective on the future of business in general, and family businesses in particular, in Abu Dhabi.

The qualitative data collected in this thesis relies mainly on two sets of semi-structured interviews. The first set was undertaken with seven experts drawn from government and its agencies, and the financial consulting industry, and is reported in this chapter. The interviews are a form of simple evidence triangulation with the author's experiences of running a family business, the generic issues identified from the literature review and the discussion in Chapter 4. The three sources taken together provide a richer and potentially more valid identification of the key issues facing family businesses in Abu Dhabi than any one of them taken in isolation. The eleven interviews reported in Chapter 6 were with principals of family businesses. Thus, the first set of interviews, reported here, is designed to provide a more independent view of family business in the UAE than the second set¹.

5.2 Preparing for the interviews

As in all research activities, good preparation is required if interviews are to be successfully conducted and generate useful data. This is especially important with expert interviews where the interview situation takes the form of a conversation between equals and the interviewer needs to be credible in the eyes of the interviewee. The objective is to persuade the interviewee to share their honest and informed opinions with the interviewer. Interviewers who are not themselves informed about the topic areas being discussed or who otherwise appear unprepared are unlikely to elicit useful responses. Expert interviewees are, by their nature, busy people whose time is valuable. The interviewer is

¹ Although, given the nature of the relationships between business and government in the UAE and Abu Dhabi, it is entirely possible that some interviewees in the first group could have family business interests as well.

unlikely to be able to arrange subsequent interviews if the first one proves to be unsatisfactory.

5.2.1 Interview questions

Interview questions were developed following the work on the literature review and the environmental analysis of family firms in Abu Dhabi reported in Chapter 4. The researcher's own experience was also an important factor in identifying topics for potential inclusion. Preliminary drafts of the proposed interview schedule were discussed with the Director of Studies and a local expert. Given that the interviews take a semi-structured form, the questions are designed to introduce topic areas for discussion rather than elicit precise pieces of information. On the other hand, there is a need to identify some common areas for questioning so that comparisons between the responses given by interviewees can be made.

The questions were subjected to peer review which included two other PhD research students. The questions were also sent to three academic lecturers specialising in management and business administration. In addition, continuous revision with my supervisor was also employed. These procedures help enhance reliability and validity of the interview questions. The result of the peer review led to the restructuring of a number of questions, deleting two questions and adding some clarifications.

The interview schedule is shown at Annex 5.1. The main topic areas for discussion are shown in bold. Supplementary questions (in italics) provide an aide memoire for the interviewer and a set of useful prompts to help improve the flow of the interview, if needed. The topics chosen for discussion are consistent with the research questions set out in the introductory chapter and are summarised here:

- Definition of “family business” in the Abu Dhabi context
- The characteristics of family businesses
- The cultural context of family businesses in Abu Dhabi
- Threats and challenges to family businesses
- The role of government in supporting family businesses
- The potential future of family businesses in Abu Dhabi

5.2.2 Selecting interviewees

An initial list of potential interviewees was drawn up by the researcher based on his personal knowledge. This formed the basis of discussion with colleagues who were also able to recommend potential interviewees. Seven interviewees² were then selected based on a number of criteria:

- Their likely availability
- The need to cover a broad range of perspectives
- Exploiting expertise from a number of different areas
- Their potential to be able to speak authoritatively on the topics under consideration
- Their ability to give a view which is independent of a particular family business

Potential interviewees were then invited to participate in the research by personal contact, usually by telephone. Once an interviewee had agreed to take part, the researcher informed them about the study objectives and main issues of the interview to give them the opportunity to prepare so as to help the researcher obtain more informed and considered responses.

5.2.3 Pilot interview

A pilot interview was conducted with a respondent known to the researcher on a personal level. The interviewee was an expert who fitted the criteria for respondents to the full interview programme. The purposes of the pilot interview were to:

- Assess the time which an interview might take
- Ensure that the opening and closing statements were clear
- Identify any areas for questioning where there might be misunderstanding
- Practice interviewing
- Test the use of the audio recording equipment

The researcher conducted the pilot interview, but another skilled and experienced researcher was also present to take notes and give feedback to the interviewer on areas where changes could improve the interviewing process. Feedback was also invited from the interviewee.

² This may appear a small number but the first interviews are exploratory in nature and are designed to complement the work of Chapters 2 and 4 rather than extend it.

5.3 Conducting the interviews

The interviews were conducted face-to-face in Abu Dhabi over the period July and August 2008. The interviewees were key officials in government and private entities who have significant interaction with family businesses in the UAE and Abu Dhabi in particular. This lengthy period reflected the difficulty in arranging dates with some interviewees and the lack of availability of interviewees over the summer period. Participants were interviewed in their offices or any comfortable places they chose. Interviews were conducted in English, although some Arabic terms were used where needed.

At the outset of the interview the researcher introduced himself, if necessary, and outlined the purpose of the interview and the research and invited the interviewee to raise any preliminary issues they might have. Respondents were told how they were chosen to be one of those interviewed. The interviewer checked that the interviewee was still available for the projected interview time (about one hour). The protocol for the interview was then discussed and the interviewee asked if they would give permission for the interview to be audio-recorded.

At the conclusion of the interview the researcher thanked the interviewee for their time and help and asked if there was anything further they wanted to raise or clarify. The researcher reminded the interviewee that they could have a copy of the audio recording and that a transcript of the interview would be forwarded to them when available. When the interviewee had left the researcher reviewed any notes taken during the interview to check them and added any notes which came to mind in the immediate post-interview phase.

5.3.1 Data capture

Data was captured through audio recording where permission was given. Audio recordings were professionally transcribed by a native English speaker and checked by the researcher. In addition, the researcher took notes during the interview and made additional notes from immediate memory post-interview. An assistant was also present at the interviews. The assistant took notes but did not take an active part in the interviews. Where interviews were not recorded a greater volume of in-interview notes were taken.

5.4 Analysing the interview data

The interview data was analyzed by the researcher using a simple checklist approach. A copy of the interview data was also provided to an independent researcher who provided notes on the key issues identified by interviewees to the researcher who then cross-checked against his own understanding of the issues raised. All interviewees have given permission for their identities to be revealed in order to establish the overall credibility, expertise and seniority of the panel. However, quotes will not be attributed to interviewees in such a way as to enable them to be identified by name.

5.5 Interview results

Table 5.1 presents the positions and names of those who were interviewed. Since the main objective of these interviews is to supplement the discussion in that chapter and provide more insight into the local context for family businesses, no attempt is made to extract themes other than those already identified. Deeper analysis may, in any case, be unjustified given that only seven interviews were conducted. On the other hand, seven interviews is an acceptable number given the nature of the interviews and interviewees and the function of the interviews in the overall research design.

5.5.1 Definition of “family business”

Interviewees stated that for a business to be termed as a family business there must be family ownership (at least 51%), and some measure of control and management of the business. For example, one interviewee drew a distinction between the formal definition of family business and the conditions which would have to be satisfied by “genuine” family businesses rather than those that exist in name only:

...Whereas the definition of a family business is limited to ownership, it still has to demonstrate majority control and influence held by the family. Most family businesses go through a distinct life cycle. A business ceases to be a family business where professional management and Board are in charge of making day to day and strategic decisions and the family is a major or majority shareholder. Hence, shareholding pattern is an important measure, but the freedom of professional management and Board is possibly a true test of whether a business classifies as a family business... (Interviewee A)³.

³ The identification letters for interviewees do not correspond to the ordering in Table 5.1. Identification is provided to help the reader judge the balance and spread of interviewee opinion.

Table 5.1: Expert Interviewees

Name	Position	Date of interview
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This list has been removed for data protection reasons. There are 7 interviewees in this list. The unabridged version of the thesis can be viewed at the Lanchester Library, Coventry University

One interviewee from a major consulting firm also pointed out that the chair of the board of a family business would be a UAE national. Whilst it is common in Gulf countries for it to be a requirement to have a national as figurehead or chair of the board⁴ in all businesses registered in the country, it is worth keeping in mind that the family businesses which are the subject of this research are all owned by nationals.

Interviewee B drew a distinction between “traditional family businesses which are run mum and pop style” and

...privately held businesses, but managed as public corporations, with corporate structures, defined roles and responsibilities of management. Most senior management are not family members but the strategic decisions have their involvement...

5.5.2 Importance of family businesses to the UAE economy

Interviewees evidenced the importance of the family business in UAE economy. They confirmed that family companies have been and are playing a significant role in UAE national economic development. For example senior person connected to the government stated:

...family business is proving a success through the economic history of the UAE and will still participate in the economy at least for the medium term; hence they will be more important...(Interviewee E).

However, the importance of family firms goes beyond the economic to embrace wider cultural concerns. One interviewee from a major international consulting firm expressed this point as follows:

...Family business is a dominant form of business in UAE. It involves family members and look at the family as their first source of employees. In addition since the management is in the hand of the family members and they all come from the same background, they would most likely prefer to preserve and transfer their values and culture to the organisation. This in turn helps in promoting and maintaining the local culture. A live example is the growth in Islamic finance worldwide. One of the key reasons behind it is the Islamic values which are the local families in the Islamic countries follow in their day to day life, and they want to follow in

⁴ Even if this is not a legislative requirement it may be a de facto one.

their business as well. Family business as mentioned is dominant in the UAE; therefore it is important source for growth and support UAE economy... (Interviewee F).

Added weight was given to this point by the other interviewee from a major consulting firm:

...Family business is the key driver of the UAE economy, family businesses are very active in the UAE economy by providing employment to the family members who are qualified and competent to lead and control the business, providing employment to UAE nationals, implementing and maintaining Islamic business culture within the organisation and as a result of business diversification, it provides a source of innovation and overall growth the UAE... (Interviewee G).

The importance of family firms as employers of nationals, which will include family members, was stressed by a senior member of the government:

...One of the main objectives of the family business is to employ family members; therefore they will start employing the family members then nationals. In addition, it is assured that all of the UAE companies will have activities pursuant to Islamic rules and values... (Interviewee E).

However, the available evidence⁵ would seem to cast doubt on at least one of the arguments made. Family businesses are, as one would expect, important employers of family members and, indeed, see this as one of their most important objectives both in business terms and in maintaining the family name and influence. On the other hand, there is little evidence that they are a major source of employment for nationals outside the family. This is a result of both supply and demand factors. On the supply side nationals have a marked preference for government jobs; on the demand side private sector employers, including family firms, find it difficult to match the wage and other employment conditions expectations of nationals and remain competitive. This situation may need to change if two of the major aims of Vision 2030, those of reducing the size of the public sector in employment terms and providing a diverse range of rewarding and satisfying jobs resulting in full employment for nationals, are to be achieved.

⁵ See Chapter 4.

One interviewee, a senior member of the financial community, argued that family businesses have also been an important dynamic force in the economy.

...The importance and contribution of family business in the UAE is high. Through various economic cycles, family businesses have brought diversification, new lines of business, expansion and growth of the economy and risk capital to new ideas. There is an adequate scale and experience for some of these family businesses to become strong in the market and sustain its competitive advantages... The biggest contribution of family business to any economy is the entrepreneurship impact they bring. Most family businesses start as a small enterprise which represents venture capital in an early stage business. This risk capital contribution not only brings returns to the family business, it also contributes to the rapid expansion of the economy. This typically generates employment, promotes more capital towards innovation and acts as a significant catalyst for growth of the economy. The UAE experience of family business at the forefront of growth is very similar. Family businesses have not only deployed risk capital in new areas and have expanded business segments, but also provided employment, training and development UAE nationals... From all economic perspectives the family business represents higher efficiency, better management skills and highly flexible models for value creation... (Interviewee A).

The drivers for diversification may well have included the need to find ways of involving more and more family members in the business as it passes through the generations. As family businesses restructure into holding companies this process becomes easier to manage. Effectively the family holding company model allows new generations of family members to start, if they want to, new businesses in a supportive environment. The high risks associated with start-ups can be accommodated within the family portfolio and the new business can access professional advice and inputs on a “shared services” basis with other family companies. The Vision 2030 sees the private sector as taking a major lead in innovation and helping shift the economy towards a knowledge-based one. As noted in Chapter 4, there is little to suggest that family businesses have been generators of innovation although they may, through their international partnerships, have been importers of innovation. Family (or any forms of) business cannot transform themselves without being part of a wider strategy of economic development embracing education, research establishments and government investment in the knowledge creation infrastructure.

5.5.3 The challenges facing family businesses in the UAE

Interviewees were asked about the main challenges and threats facing family businesses in UAE; they identified both internal and external threats. All interviewees argued that the globalisation of markets and free trade are two of the main issues facing UAE family businesses; heightened competition poses a potential threat to their economic role and growth.

Increasing competition in the global labour market was also perceived as a threat. An international management consultant with extensive regional experience (interviewee G) noted that

...globalisation of the UAE market and free mobility of managerial and professional talent are key threats to the family businesses in the country...

The other international consultant suggested some specific factors which could make it more difficult for UAE firms, and family firms in particular, to compete in the professional labour market:

...Getting good professional staff is one of the most important challenges facing the family business today. The reason behind that could refer to the cultural issues, ad hoc policies and procedures, interference of family members and some time brand image of the business... (Interviewee F).

This comment is borne out by the fact that very few UAE family businesses, despite their size and influence, are well known outside the Arab world. Wage rates and living conditions are not cited as disincentives to working for family firms. In this quotation “cultural issues” refers to the preferential position accorded to nationals in UAE society rather than any religious or other dimensions.

On the other hand, some respondents identified the positive dynamic effects of competition in pushing family firms towards further diversification and innovation. One international management consultant suggested:

...Globalisation brings competition but at the same time opens up lots of opportunities to the family business. It gives them more options to diversify into new services and products and also explore new markets. The new player who wants to enter the market place needs internal support. Therefore, family-owned businesses can create a win-win situation for both of them as evidenced by many family owned conglomerates in the UAE... (Interviewee F).

This argument seems to see the role of family businesses as continuing their traditional role of providing a means of entry into the UAE market for international firms via local partnering. Whether this creates a long-term win-win situation for the economy as a whole is questionable unless the nature of the relationship between international companies (the owners of knowledge and intellectual property) and their local agents/representatives (the family firms) develops to place a greater emphasis on family firms learning from international collaboration.

Five of the seven interviewees pointed out the challenges to existing business practices which could result from extended collaborations with foreign businesses, and regarded this as a possible threat. For example Interviewee G argued that:

...cultural dilution of business practices due to collaborations with foreign businesses could also cause a threat to the family business...

This may, of course, not be a product of the practices themselves but the lack of transparency (to outsiders at least) of business dealings. The UAE business system is maintained by a high degree of trust between business partners rather than by elaborate regulation. To some extent trust is a substitute for transparency, the rule of law and accountability⁶, and the latter may only required when trust is failing. One reason why trust might fail is that business dealings are increasingly been done with external partners rather than other Emiratis. The trust which has been built up by many years of shared history and through difficult as well as prosperous times may not be transferable to, or assumed in, others from outside that culture.

⁶ At least in the way that these concepts are usually understood in democracies.

However, the notion that dilution of current business practices represents a threat in part assumes that those practices are fit for purpose when competition is at least regional, and possibly global, in many markets. Even if there are local monopolies in output markets, the input markets for business talent, finance and knowledge are becoming increasingly global in nature. Collaborations with foreign companies may help local companies acquire the skills, experience and knowledge to be able to compete beyond national boundaries. One interviewee, an international management consultant, saw international collaboration as an opportunity rather than a threat:

...Collaborations with foreign companies bring opportunities to the family business. It helps them consolidate their activities and also to diversify away from their traditional business. Most importantly at times they bring best practices with them... (Interviewee F).

He also felt that the threat to local business practices posed by international companies may be overstated and that most of them tried to comply with national laws and to be “coherent with the local culture of family businesses”.

A senior member of the government also saw globalization as an opportunity:

...the UAE economy is free, but due to globalisation and role of family business in the UAE economy family business will continue to play a major role in future development... (Interviewee E).

On the other hand, the supposed problem of obtaining funds for growth was dismissed by interviewees. Interviewee F, a management consultant, stated that

...getting funds has not been a major problem for family owned businesses especially in countries like the UAE...

The availability of funds was confirmed from the government perspective (Interviewee E).

Internal threats to family businesses were perceived as deriving from two main sources; changing national legislation and the nature of the businesses themselves. The legislative threat, identified by four of the seven interviewees, was not seen as an issue with the

content of the legislation, but one of being able to adapt to the consequential changes needed quickly enough. For example, one senior advisor to businesses suggested that:

...Changing business legislation will lead to influence the negative in the business, as firms need time and more efforts to adopt with new legislation as well as sometimes hinder the work within the firms. Also, government and legislation parties should consider this issue and work closer with the family businesses to get more understanding of the problems and help to solve it... (Interviewee B).

Another interviewee, a prominent member of the financial community, suggested that family firms, given their importance to the economy and their political influence, may be less threatened by change in legislation than some would fear:

...Laws are being changed to develop the economy. It will bring competition but at the same time opportunities. In addition, the changes in roles and law within UAE usually considered national firms including family companies... (Interviewee D).

The major firm level threat identified by all interviewees was, unsurprisingly, that posed by internal conflict whether intergenerational or prompted by major events such as succession. All interviewees identified such issues as being the most important threats to the future success of family firms in the UAE. This view was summarized by a prominent member of the UAE financial community:

...When founders hand over control to either the second generation or in some cases professional management, the value of the company drops due to lack of the ability of the new leadership to understand the vision of the founders. This is further complicated by sensitive family relationships where either there is conflict, or the sheer lack of willingness to take tough decisions. It is typically at this stage that the business is either broken up, or worse still, it stagnates due to lack of decision making... There is no perfect solution to these challenges. Most experts agree however, that the family business should start inducting professional management as soon as there is a certain scale and also go through a rigorous process of establishing strong communication and training the succeeding generation to take over the running of the business... (Interviewee A).

The reference to the value of the company dropping resonates with the discussion in the literature review. The seemingly obvious interpretation would be that the financial value of the company would depreciate. However, a more sophisticated argument would be that

family and social capital could be damaged with a consequent reduction in both financial value and family value.

Of course, the break-up and restructuring of family businesses may not, of itself, be an issue for the economy or family members who have no desire to continue the business. If the alternative is inertia, then restructuring and transfer to other hands may give new life to the business. If new generations, as one international consultant pointed out, have little interest in the traditional family business then it is likely that keeping the business running will lead to increased conflict rather than less:

...Running a family business is arguably more difficult than running any other kind of business, precisely because it involves family ties as well as commercial relationships. In addition, the lack of interest of new generations to work in the same way or method, and the role of new generation in the business helps to increase gaps and conflicts... (Interviewee F).

Later family generations, whose only experience may be of the wealthy lifestyle afforded by the success and efforts of their elders, may have less inclination to work for the continued growth of the business. Younger generations, as suggested in the quote above, may also not share traditional cultural values to the same extent as previous ones. The intergenerational differences in attitude were highlighted by a senior business advisor:

...The biggest challenge is that the second and third generation tend to be 'fat cats' living on the success of the previous generation and their efforts are not always recognised and appreciated. This leads to conflict which may lead to break down of the business... (Interviewee B).

This observation is consistent with the more complex model of the relationships between family members and the family business outlined in the literature review. Family members will have different interests and desires for active involvement in the business. These need to be recognized and managed. Those who are actively involved should be recognized through an appropriate reward structure based on payment for their efforts. Family members who do not take an active part in the business should have their ownership rights recognised through a shareholding structure.

5.5.4 The future of family business in the UAE

Despite the identified threats to the future success of family businesses in the UAE, most of the interviewees agreed that the family business is becoming more important in the country. A particular dimension of their importance is their role in maintaining cultural values at the same time as improving the economic and free-trade environment and attracting new foreign venture capital. One management consultant said:

...Family businesses in the UAE are very important because they help maintain the country's culture and ethical environment and improve the economic and free-trade environment in the country. UAE economy is open. Its future is highly dependent on the local nationals, their strategies for growth and relationships...(Interviewee G).

Another interviewee, in contrast to the criticisms of some voiced earlier, praised family businesses for their performance:

...Family business in the UAE has grown to conglomerate proportions in some cases. Collectively, the embedded value of these businesses is estimated to be similar to the combined market capitalization of all listed companies in the UAE...The local companies are progressively adding value to themselves and the economy. From an economic perspective, the family business represents a higher efficiency, better management skills and highly flexible models for value creation. Overall, given the economic scenarios, family businesses are poised to do well in the future in the UAE... (Interviewee A).

However, the intended contrast was with the public sector rather than other private sector businesses.

5.5.5 Government and family business in the UAE

Interviewees confirmed the importance of the government role in supporting and encouraging family businesses. This is a reflection of the importance attached to family business by government and the high expectations placed on family businesses in the Vision 2030. One prominent member of the financial establishment summarised the government position as follows:

...The government is placing a high degree of emphasis on financial and operational efficiency of the family business. Even infrastructure investment, which has been funded by government capital in the past, is now in the process of being partially privatized and supported by family businesses. There is a concerted effort to diversify the economy and add

the manufacturing and services content to the economy. The government also wants to bring in soft infrastructure of legislations, governance and transparency, to facilitate the flow of foreign direct investment. This presents a greater opportunity for established family businesses. It also presents an opportunity for new family business to be established in a high growth environment... (Interviewee A).

However, interviewees were of the opinion that any changes to the legislative framework would be even-handed, that is not overtly favour family businesses over other types of business; as one management consultant put it:

...While the government may not actively promote the family businesses or treat them more advantageously, it has been very active in recognising the family role the business environment, its values and business ethics. In the light of an open and competitive environment, all businesses have to be awarded the projects based on their merit. However, the key family businesses in the country such as Al-Fahim Group and Al-Jaber Group have been proactive, competitive and praiseworthy due to their professional execution skills and strong ethical values... (Interviewee G).

This quote implies that the established track record of some family businesses, coupled with their understanding of the business culture in the UAE, should mean that they are well placed to compete for government contracts. Of course, these businesses are the survivors and have presumably reached their current position on the basis of long collaboration with government and therefore represent potentially safe partners in a risk-averse environment.

A preferential legislative environment for family business in UAE, including treating them advantageously, is not regarded as being helpful by interviewees. In part this reflects the predominance of family firms in the private sector of the economy; taken as a sector as whole (covering all firm sizes) family firms account more than 90% of the working firms in UAE. Thus any legislation in the business arena would be unlikely to be framed in such a way as to damage family firm interests. An interviewee commented that:

...It is unlikely that the government would create legislation specifically in favour of or against family business, but the government would certainly promote a higher degree of private sector participation in the economy including family business. This is a great opportunity for both SME family businesses and established large family businesses...(Interviewee A).

Preferential treatment for domestic private sector firms could also have negative effects. It would act as disincentive for foreign firms to compete in the UAE market and drive out foreign direct investment (FDI) in the UAE. It would also reduce the incentive for family firms to become more competitive and, in turn, become more active in export markets at least on a regional basis⁷. This need to create an incentive structure which promotes greater competition was usefully summed up by a management consultant with extensive experience in the Middle East:

...It is unlikely that Government will form a law to protect the family businesses except for some strategic sectors as this would give a wrong signal to the outside and will not favour its effort of making the economy more competitive and attractive for the foreign investors. A law would make the family owned businesses complacent and as a result they will not be able to develop practices which will make them competitive in other markets... (Interviewee F).

5.6 Summary

This chapter presents the results of semi structured interviews conducted with seven experts on family business in the UAE. These experts were drawn from government departments and agencies with a clear responsibility for economic and business development, two of the major international consulting firms active in the UAE and Abu Dhabi whose client list includes many of the prominent family firms in the region, and senior members of the investment community. Together they are in a strong position to give an informed and authoritative opinion on the major questions which lie at the heart of this research.

The interviewees were all of a strong view that family businesses would remain the backbone of the private sector and may even become more important in the future. Overall, the impact on, and contribution to, the economy of family businesses to the UAE economy is expected to increase. The future of the family business is, in reality, the future of the private sector in the UAE. The imperative is to prepare new generations to help in the continued development of family firms, with a concentration on improving the quality of management, promoting efficiency and reinvesting gains to ensure future sustainability.

⁷ In particular UAE firms could exploit considerable opportunities in the Middle East and North Africa (MENA) region.

Family businesses in the UAE are facing internal and external challenges and threats. The internal threats include new family generations lacking interest, with greater numbers of family members involved it is hard to reach consensus, and conflict between “family” and “business” interests can result. The external threats include globalisation and the open market policy that is followed in the UAE, attracting sufficient managerial and professional talent and “cultural dilution of business practices” as a result of collaborations with foreign businesses. However, this view was balanced by those interviewees who stressed the benefits that foreign competition could bring to an open economy and the opportunities for family businesses which could result. The challenge for family businesses is to develop ways of exploiting those opportunities.

The major dangers for such firms come from within, the emergence of factions within the family and the business, disputes and a lack of willingness to invest in good governance are major threats. In addition, if family businesses do not embrace developments in technology, they will decline and diminish in profitability since competition is going to be more effective than it has been in the past.

In the view of the expert interviewees, family businesses will be expected, in the future, to take on three major roles in the economy. Firstly, they will become a much greater source of employment for nationals, beyond family members. This will present challenges on both sides of the labour market. Secondly, family firms will need to become sources of innovation in the economy. Growth will be through diversification into new markets and products rather than expansion of traditional activities. Family businesses will need to exploit the expertise of their international partners in order to embed innovation successfully. Thirdly family businesses are the cultural buffer between domestic business activity and the growing presence in the local market of international firms. Relationships with foreign businesses will need to change, but interviewees were confident that a balance could be struck between maintenance of Arabic cultural values and international business influence.

Annex 5.1 Interview schedule

Preamble

Thank you for agreeing to this interview. Your time is very valuable to me.

All interviews are confidential. Any quotations or information you give me will not be attributable to you. Any quotations used in my dissertation will be anonymised.

I would like your permission to record this interview. This will help me make the maximum use of the information you give me. If you would like a copy of the recording please let me know. The interviews will also be transcribed and I would be happy to let you have a copy of the transcript.

If there are any questions which you do not feel able to answer please let me know and we will move on.

The interview should take no more than an hour.

Initial questions are shown in **bold**; supplementary questions in *italics*.

1. How would you define “family business” in simple terms?

What does family business mean to you?

What are, in your opinion, the right criteria for defining the family dimension in the business?

Which is more important – ownership or management?

2. To what extent are family businesses in Abu Dhabi influenced by Arabic culture?

Does Islamic heritage affect the family business?

3. How important do you feel family businesses are to the Abu Dhabi economy?

In what areas of business do you think family businesses are most effective in their role in the Abu Dhabi economy?

4. What kinds of threats do you believe family businesses face at the domestic level?

What kind of domestic challenges do you believe family businesses face?

What threats come from inside the family firm itself?

What needs to be done to overcome these challenges? Could you give any examples?

Is it possible to anticipate future problems or is it a matter of reacting quickly to problems as they occur?

What do you think needs to be done in order to avoid generational disagreement inside family firms?

5. What kind of threats to the Abu Dhabi family business come from outside Abu Dhabi?

How can we possibly overcome such threats and challenges? Could you give any examples?

6. Should the government support family businesses in Abu Dhabi?

What should the government do to support family businesses?

Should government push through policies to get family businesses to act in certain ways, for example employing Nationals?

How much a factor is government bureaucracy in developing and running family businesses?

How effective is the government in amending the laws on businesses when there is a case for doing so?

Earlier we talked about the threats and challenges facing family businesses. Is there a role for government in helping family businesses overcome these threats and challenges?

7. What would you say is the future for family businesses in Abu Dhabi?

Have you any evidence for your opinion?

8. Is there anything you would like to add?

Are there any areas which you think are important which we have not covered?

Postscript

Once again – thank you for your time.

Your views have been very helpful and informative.

Chapter 6

Interviews with Family Firm Principals

6.1 Introduction

This chapter reports the results of interviews with the CEOs or similar officers of the eleven family firms identified as being the largest in Abu Dhabi. Much of the approach to the interview research reported in this chapter follows that presented in Chapter 5. That material will not be repeated here; information on the conduct and analysis of these interviews will only be included where it differs from the existing approach.

6.2 Preparing for the interviews

The interview questions used were the same as previously and are reported in the interview schedule (Annex 5.1). The interviews were mainly conducted face-to-face in Abu Dhabi during October and November 2010. Interviewees were interviewed in their offices or any place they suggested. The rationale behind this choice was to make the interviewees comfortable and take their time in answering the interview questions. The interview was conducted in English unless the interviewee asked for it to be conducted in Arabic. Table 6.1 presents the names, positions and affiliations of interviewees.

6.3 Analysing the interviews

The first stage of the interview analysis was descriptive categorisation¹. Categorisation involves a systematic recording of data; descriptive categories help provide a first-level organisation of responses. Categories may cover key themes, concepts, questions or ideas and can be generated in a number of ways. For example, categories relating to concepts could be derived from a literature review or previous studies. However, one simple way of beginning the categorisation process is to use the questions themselves as a categorisation system. This proved a useful way of proceeding with the smaller number of interviews reported in Chapter 5. The process is not dissimilar to that recommended by King and

¹ The term “categorisation” rather than “coding” is used here. Whilst the two terms are often used interchangeably (see, for example, Kvale and Brinkman (2009: 201) the methods used here do not adopt the type of strict coding techniques which have been developed in the context of various methods of qualitative research.

Table 6.1: Interviewees from Family Firms

Interviewee name	Position and company
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This list has been removed for data protection reasons. There are 11 interviewees in this list. The unabridged version of the thesis can be viewed at the Lanchester Library, Coventry University.

Horrocks (2010) where initial descriptive coding is carried out by marking off relevant passages².

The researcher therefore constructed a grid with three columns and a row for each question as shown in Table 6.2. The first transcript was then read carefully and the responses to each question summarised in column 2. Notes were added in column 3 as reminders for further analysis. The responses were annotated with a simple key identifying the respondent. The next transcript was then analysed in the same way, except that where a response was the same as one already recorded, then that respondent's identifier was added to the existing response. New or additional responses were added along with the identifier. This process was repeated until all transcripts had been analysed. The end result was a lengthy table showing all the responses to each question grouped by the interviewees who made that response. This initial categorisation was checked by a colleague who was an experienced researcher to ensure that researcher bias in categorisation was eliminated as far as possible. This process quickly revealed areas where there was commonality of responses, the range of views and areas of disagreement. These three areas form the basis of initial analysis of most qualitative research data.

Table 6.2: Outline descriptive categorisation table

Questions	Summary of response(s)	Notes
Q1		
Q2		
etc		

However, this initial approach does little to identify relationships between the themes of the research or generate insights between the themes, although use of the notes column helped at a preliminary stage. "Thematic categorisation" emerged through gradual immersion in the interview data. Construction of the initial table of responses facilitated this deeper engagement with the data. The help of another researcher was enlisted to both check that the initial table represented a useful summary of the transcripts and as a person

² Although here the starting point for marking off is to take the answers to questions as relevant passages. However, interviewees may, in the course of answering early questions, cover (later) material out of order. The simple approach proposed here accommodates this.

with whom to discuss potential patterns in responses which cut across answers to questions and could be grouped to form themes. Whilst many of the themes reported here follow the questions, some additional themes have been added.

6.4 Interview results

The origins of ideas, opinions and quotations are ascribed to interviewees through an identifier. This takes the form of a capital letter in the range H to R, that is they follow on from the seven letters used in Chapter 5. However, the letters have been assigned to the interviewees listed in Table 6.1 in a random order in order to protect the identity of individual respondents as required by the Coventry University ethical code of practice for research³.

6.4.1 The definition of “family business”

There was widespread agreement that the major defining characteristic of a family business was ownership by the family. In addition most respondents believed that the top management (executive) should come from the family, or at least the family should be in the majority. However, in larger businesses it was accepted that some family members would only be owners whilst other would be both owners and have executive positions. The size of the business was also a relevant factor. When the business is small, family members will be directly involved in all aspects of it, including operational management. As the business grows family members may be less involved in day-to-day matters. Some interviewees suggested that family ownership would result in family firms having a different decision-making process. Interviewee K believed that the most important defining criterion for a family business was the willingness to continue in family ownership, especially during the transition from first generation ownership and control to the second generation taking over.

³ In any case there would need to be a significant gain in research terms from revealing the identity of individuals even if there was no necessity to do so. There is no compelling case for revealing the source of quotes in this research.

6.4.2 Cultural influences

All interviewees stressed that distinctiveness of their family businesses from a cultural perspective. Many values which permeate daily life and the conduct of business, such as honest dealing and trustworthiness, are taken from Islam. Interviewee E summed this up:

...Islamic and Arab culture is thought of highly with regards to the family business, as Arab and Islamic family values underpin the business operation...

However, interviewees also identified three specific areas where cultural norms could cause problems:

1. In Arab traditional society women are not encouraged to participate in management “even though the wife of the prophet was herself a businesswoman” (Interviewee M). Interviewee N argued that Arab social norms were the source of this view rather than Islamic teachings per se. For Interviewee N it is “Arab culture that tries to disempower women by discouraging them from working in a masculine environment”.⁴ Islamic Law (Shari’ah) also lays down strict inheritance rules. These give daughters a half-share when compared with sons,⁵ this in turn lessens the influence of women in the family business. Interviewee H pointed out that sons-in-law are not required to take any role in the management of the business, a practice which further reduces the contact of daughters with the family business.⁶
2. In Arab culture the oldest son is the official heir to the father in terms of his social status, respect and representation of the family in society. This is also the case when it comes to managing the family business. When the founder entrepreneur of the business passes away it is natural and expected that the oldest son will take over as CEO and/or Chairman. As Interviewee R noted
..this can often be problematic as the older son might not be the best person to manage the family business and financial affairs...

⁴ This echoes some of the reasons advanced for relatively low participation of women in the labour market. It is not necessarily the case that women do not wish to work however more traditional families may not want their daughters working in an environment where they will be in social contact with men from other families and cultures (Chartouni, 2009). Gender separation in the higher education system reinforces such norms (Bristol-Rhys, 2008).

⁵ Islamic inheritance laws are explained in UN-HABITAT (2005).

⁶ Once married a wife’s obligations are towards her husband’s family rather than her own.

3. Islam also has an impact on the type of business a family can be involved in. Interviewee P had experienced examples where some family members wished to expand the business into activities which are not compliant with Shari'ah principles and internal conflict had been the result. Interviewee P noted that

...it is an Islamic value that work is worship, meaning that making profit legitimately is part of a religious duty to worship God through worthy acts as well as faith...

Interviewees regarded family values as being very important for the continuation of the business. For some, when considering the sustainability of the business, "family values are more important than money". Family values are a vital component of building business reputation. The particular values identified as being of importance were respect for seniority, respect for the family, respecting others and patience. In one interviewee's memorable phrase "honesty is the capital of the successful business".

6.4.3 Importance of family businesses to the economy

As would be expected, all the interviewees stressed the importance of family businesses to the Abu Dhabi economy. A majority also stated that they helped in providing employment for nationals, even though, historically, this has not been the case. However, the claim reflects the policy agenda built on the Vision 2030 which stresses the aim of shifting the responsibility for generating new employment on to the private sector.

Interviewee I estimated that family businesses represented not less than 85% of the UAE economy⁷ and that family businesses would increase in importance as the share of oil in GDP declined.⁸ Interviewee N pointed out that many of the most prominent family companies pre-dated the formation of the UAE and the development of economic development agencies at the Abu Dhabi level. In the critical early years of state formation family businesses were the main drivers of economic development. Interviewee J argued

⁷ Presumably 85% of the private sector.

⁸ The fall share of oil and gas in Abu Dhabi GDP will fall if the plans to diversify the economy are fulfilled. It is planned to meet the ambitious growth targets of Vision 2030 through expanding non-oil activities quicker than oil-related ones. Given the capital intensive nature of the oil industry this should increase employment opportunities (see Zamzam, 2011).

that family businesses had an important role in maintaining economic stability in the country⁹ and implementing government policies for the private sector.

All interviewees identified trading as a major activity for family businesses. In part this is a product of the traditional economic activities undertaken by Arabs, but family firms are excluded from some activities which they might want to enter such as oil and gas exploration and extraction and utilities. In addition UAE agency law makes commercial agencies a very attractive business opportunity. Construction and real estate are also prominent and reflect the emphasis on physical infrastructure development taken by Abu Dhabi and the UAE in recent years. Secondary and tertiary services such as logistics, retailing, hotels, tourism and travel agencies are also popular. There was, however, disagreement concerning manufacturing. Two interviewees specifically stated that family businesses operated in manufacturing whilst two others suggested that manufacturing “is not preferred by UAE families”.¹⁰ Interviewees also pointed out that larger family companies were conglomerates operating in a wide variety of sectors.

6.4.4 External threats and challenges

Interviewees expressed a range of views concerning international competition and cooperation. Interviewee H identified the main challenge for family businesses as continuing to grow as this would only be possible through working with outsiders. However, H also observed that

...family businesses need to appeal to others, we have seen some international partners going from one family business to another, especially agencies...

The growing influence of foreign companies was seen as a challenge, especially in the context of the UAE signing the GATT. Interviewee Q summed up the opinion of several interviewees in saying

⁹ A main cause of economic instability has been volatility in the oil price and oil revenues. Since family businesses do not (except for oil industry services) operate in the hydrocarbons sector they have an important role as economic stabilisers.

¹⁰ These interviewees are not specified here since it would be easy to link the interviewees who favoured manufacturing to the company activities listed in Table 4.1.

...GATT will negatively affect family businesses. The market is limited compared to the European market...

Interviewee O also adopted a cautious stance:

...ideas from abroad do not necessarily work in the UAE; globalisation is part of it. Family businesses should be strong to face the new challenges in the world, they have to adapt to the surroundings...

Some interviewees also expressed a fear that the (UAE) law on foreign businesses might be changed, for example Interviewee I stated:

...the international threat is mainly globalization. If the law in the UAE changed to allow foreign businesses to be established without local partnership then it will represent a real threat to all existing businesses...

For Interviewee M these threats were exacerbated by the recent recession in the UAE economy; a prolonged period of growth had been ended and family firms were finding it difficult to adjust to the new realities of stagnation or contraction.

Some interviewees also identified other sources of unwelcome competition; for example, Interviewee J referred to “competition from government bodies or influential individuals in addition to foreign companies”.

6.4.5 Internal challenges

All interviewees identified succession as a major challenge, particularly from the founder to the second generation. For example, Interviewee Q noted that

...decision making is a problem after the death of the founder especially when the number of decision-makers is becoming bigger...

Preparing for the death of the founder was seen as being necessary even if difficult. Interviewee K referred to

...the ability to bypass the panic phase of preparation right after a death...

Interviewee L argued that

...organization is very important in order to assure cooperation between partners; this should include the scenario of the owner's death...

Interviewee J placed an emphasis on

...the ability of the founder to transfer his vision, way of management and enthusiasm to the next generation of management whether family members or other employees...

Other threats identified by interviewees were access to funding, management style being inappropriate in the future, maintaining a vision and generating innovation. Knowledge management, retaining talent and employee development also featured.

Opinions differed on the specific issue of obtaining funding. For several interviewees attracting funding was not seen as a problem provided the business was well managed. All agreed that the government was not a source of funds; bank credit was the major funding vehicle. Interviewee L stated that

...funding is not an issue for those family businesses that have strong formal policies and procedures. With clear business plans funding is not a major issue...

The point was underlined by Interviewee R:

...It is very easy for the family business to obtain funding especially with a good reputation in the market. This could be derived from identifying their plans including succession and sticking to those plans. If the bank knows there are problems in that business they will not support funding...

Some interviewees, whilst agreeing with the sentiments in the quotations immediately above, suggested that funding may be more difficult to obtain; for example Interviewee P argued that:

...funding has been a problem for all sectors nowadays after the crisis so it is not related solely to family businesses. Family businesses should hire good, experienced people and they should learn from their mistakes; policies should be carefully planned...

6.4.5.1 Succession and governance

All interviewees stressed the importance of foresight and preparation in dealing with succession. Some linked this directly to corporate governance. For example Interviewee I discussed succession as follows:

...This is a very difficult phase; it is a common area where failure is known. If you do not prepare the successor, succession will not happen smoothly. Regarding corporate governance, business companies, regardless of their size, need corporate governance which will cover the legal framework and regulations...

Most interviewees, who were mainly from the second generation of their family business, believed that the responsibility for establishing the rules for and procedures for succession lay with the first generation. For example, Interviewee Q, from the third generation of his family, said of succession

...it is a problem and the family should sit together to plan that phase. The legal structure should be established by the first generation and should be applicable to all. We prefer that our kids work with us, but it depends on their willingness. And there should always be somebody to continue the business...

Interviewee O agreed that it is not necessary or desirable for all family members to be involved in the business directly:

...the new generation should take part in the business as early as possible. Also the second generation should be educated¹¹. In addition, not all family members should be working in the family. It is those who have the passion and ability who should be involved...

Interviewees recognised the importance of governance in promoting the stability and survival of their family firms. For example, Interviewee O reported:

...I am creating new governance for our group of how we will talk to the business. Family is a family and business is a business. Business is not a charity...

Whilst this would seem to imply an extreme view of how to manage the intersection between family and business, it does emphasise the need to be clear about family and business boundaries.

¹¹ Taken to mean educated at university level.

6.4.6 Managing change

All interviewees recognised the importance of being able to manage change effectively. However, they were split on their views as to whether family businesses were better or worse than other companies in coping with change and making decisions effectively. There was a recognition that it depended on the particular family and, in particular, the ability of the directors. Interviewee H seemed to put the family above the business if a choice had to be made:

...being a family business might be an obstacle; it depends on the family's collective understanding and might be depending on preserving the family...

Interviewee K summarises one side of the argument as follows:

...family businesses have a better ability to cope with rapid changes due to their dynamic systems and ability to take decisions quickly. As compared to corporates that are not family businesses, I feel it is sometimes faster to make decisions in a family business as the social ties between family members and the trust level among them influences the speed of decision making in times of rapid change...

Interviewee M put the opposite case:

...Anything you change in the family needs some time because you deal with individuals, so they need time to understand and adapt in order to come up with different strategies. The green light should be taken from the family board because they are the owners, not public shareholders. When I came to this family business it was a change in itself. We accordingly introduced more discipline in taking decisions and adopted a more systematic approach. I think change should be taken care of from different levels. I think a team should be hired in order to accomplish any change. This was conducted in our company and it helped us improve the business. We used to see from only one dimension; now we can see more...

However, there was general agreement that as the family business grows larger and more complex structured decision making and reporting processes become necessary. Interviewee P related this to the role of trust:

...trust is an important factor in life, but in addition to trust you have to develop checks and balances that go hand in hand with trust...

The ability to delegate authority effectively was seen as a sign of trust.

6.4.7 Non-family employee commitment

Interviewees argued that employees of family businesses are more committed than employees of other firms because they are considered “part of the family” and enjoy more flexibility and more varied incentives. For example Interviewee H recounted:

...After many years those employees are considered as part of the family and this will increase their loyalty. My brother used to save money for expatriate employees and after they finished. He used to give them extra money as extra gratuity...

“Kith and kin” hiring practices also have an influence. Interviewee P pointed out that:

...In many cases family businesses give work opportunities to some family members of certain employees. This practice is usually not accepted in many organisations and they do not encourage relatives to work in the same company. This is different in a family business as it is actually sometimes encouraged. This also leads to more loyal employees...

6.4.8 Government and family business

Interviewees recognised that family businesses depended on government actions. Whilst these did not take the form of providing direct financial support, many family firms are dependent on maintain good relations with government in order to secure contracts or obtain land. Government’s role in creating a business friendly regulatory environment was also stressed by many interviewees. Two interviewees believed that the government could help in cases of family disputes by intervening and, in the case of succession, by enforcing regulations to keep businesses stable during the handover phase. However, these were very much minority views although the softer role of providing consultancy and guidance was more widely accepted.

There were three specific areas where interviewees suggested government might amend its policies; emiratisation¹² (see below), fees for services and financial limits for raising capital through an IPO (Initial Public Offering). Interviewee K said of fees:

...Government fees are very expensive. To bring a worker to work in the UAE costs, on average, AED12,000 while in other countries like Kuwait it costs AED500...

¹² A range of labour market policies which have the common aim of replacing expatriate labour by nationals. See <http://emiratisation.org>

There was also widespread agreement that the government should consider lifting the current 30% maximum for IPOs in order to give family firms more access to the capital market.

Opinion was divided on emiratisation. Larger family firms are required to have at least 2% of their staff strength as emiratis. For some firms this requirement can be met through employees who are members of the family. However there was widespread agreement that, whilst family firms support the policy of emiratisation, there are practical difficulties in employing nationals. For example

...nationals expect that they are paid high salaries at least equivalent to government salaries. This cannot be afforded by family businesses operating in highly competitive environments... (Interviewee I)

...I do not see employing UAE citizens as a limitation, but the main problem is to find UAE nationals who can adapt to working in the private sector under somewhat tough conditions... (Interviewee O)

...we are not against Emiratisation but the problem is when it is dragged into all sectors because not all types of work suit local people. There are many jobs that a UAE national cannot accept because of low pay and tough work conditions...(Interviewee Q).

6.4.9 The future of family businesses

The succession issue featured strongly and, predominantly, negatively. For example, Interviewee Q doubted the ability of family businesses to survive in that form:

...the family business will face problems with each new generation; ultimately a family business's future is to become a properly governed corporate...

Interviewee K echoed this feeling:

...the future is challenging especially with the second generation not being ready or interested in continuing the business...

Other challenges were summarised by Interviewee H

...the future is challenging and it is difficult...family businesses need credit, proper audit, and corporate governance. There is also severe competition...

And Interviewee J

...There are many challenges: mainly the competition between the private sector and the public sector, the difficulty in securing financing and opening new markets make the future very difficult...

More optimistically some interviewees believed the challenges could be overcome:

...the future is promising if they follow the right business model with clear vision, right management and clear strategy... (Interviewee I)

6.5 Summary

The opinions and views of principals of the largest family firms in Abu Dhabi are reported in this chapter. They provide an essential view to be placed alongside those reported in Chapter 5 and the analysis of Chapters 2 and 4. Overall the views of experts reported in Chapter 5 tend to be more positive towards the future of family firms in Abu Dhabi. All seven of the (Chapter 5) interviewees saw a positive future for family firms whilst there was a significant minority opinion expressed by some family business principals to the effect that the future was a challenging one which businesses might not survive, at least in family firm form.

The major threats to survival were identified as:

- The loss of purpose, direction and impetus which the family business might encounter when the founder is no longer involved and his¹³ driving vision is absent or diminished.
- The combined effects of globalisation and the relatively small size of the domestic market.
- The potential for legislative and regulatory change in the UAE which could leave family businesses more exposed to international competition.

The first of these threats is a special case of the well-known succession problem. Whilst all interviewees recognised the potential for succession in general to be disruptive and threaten the survival of the business, first to second generation succession was identified as

¹³ Unsurprisingly the founders of all the businesses were men.

a particular issue. There are a number of possible reasons for this. Firstly, the concern might reflect the age of the firm. Many of them will have experienced this shift within recent memory and, in some cases, the firm's founder will still be alive. Secondly, Arab culture accords greater respect to older people and heads of families than is common in many developed countries. The death of the founder of a family firm is a much more significant event than might be the case in other cultures. Thirdly, family firm influence and reputation is very closely aligned with the standing of the family. The influence and status of the family is a product of traditional relationships and networks built up before the large scale development of the oil industry. The founders of family firms are the links between this past and the present. Breaking these links is not simply a matter of nostalgia but is also one of potential weakening of relationships between business families, including the ruling family. Many of the interviewees pointed to the role of the first generation in ensuring that succession policies and processes are put in place. This includes the need to groom successors.

Globalisation was seen as a two-edged sword. On the one hand, many family firms are outstripping the limited size of the domestic market. Further growth can only be achieved through even greater diversification within the existing market or by growing into markets beyond the UAE and GCC. Both these options have downsides. In the first case the result would be greater complexity, unfamiliarity of new products and services and even less focus on core strengths of the business. The second option exposes the family firm to increased competition from foreign firms. These product market fears are amplified by the difficulties of competing in global factor markets, particularly those for managerial and professional talent and (financial) capital. On the other hand, access to new markets is an opportunity. However, the principals of family firms were cautious about opening up the UAE market. For example, many were concerned that becoming a signatory to the GATT would do more damage to their position in the domestic market than it would provide opportunities in other markets.

This caution was also reflected in the attitudes towards international collaborations. For some the fear was that international collaborations might lead to cultural dilution of business practices. Specific mention was made of the practice of some international firms of

playing off one family business against another. Whilst “beauty parades” might be an acceptable business practice in many cultures they cut across the relationships between the families involved in those businesses. They might also unintentionally damage trust. Other sensitive areas include the mixing of men and women in the workplace and dilution of the practices, such as kith and kin hiring, which underpin the trust between employees and the family firm.

Legislative and regulatory change issues focused on four main areas. Firstly, family firm interviewees were wary of any change to agency laws. In particular the loosening of agency laws to permit non-exclusive arrangements in the local market or making it easier for international firms to switch agency partners were identified as threats. Secondly, family firm principals were concerned that the current limit for foreign ownership of UAE firms (49%) should not be changed¹⁴. Thirdly, there was a call for the rules on IPOs to be relaxed to enable greater access for family firms to the capital market without compromising the family’s ability to retain control of the firm. Fourthly, opinions varied on the emiratisation policy. Chapter 5 interviewees believed that family firms were an important source of employment for nationals. The principals of family firms were less positive, citing a number of reasons why the policy was potentially misplaced. Whilst family firms accepted the overall policy aim of providing more employment opportunities for nationals, many of the argued that the expectations of nationals in terms of pay and conditions were unrealistic and, if met, would damage the competitiveness of their businesses.

¹⁴ Although there are no current plans to raise this limit (BI-ME, 2011).

Chapter 7

A model for family business sustainability

7.1 Introduction

The previous chapters have concentrated on identifying the opportunities and threats which family businesses face in Abu Dhabi in coming to terms with the changes in their external environment, meeting the internal challenges posed by ensuring continuity, sustainability and growth of the firm and meeting the expectations placed on them in the Vision 2030. This chapter outlines a model which is useful in discussing *how* family firms might meet these challenges. The model is not intended to help predict the future of family firms in Abu Dhabi nor does it seek to explain how family firms have developed. It is intended to be a heuristic device¹ to assist in a discussion of strategy and policy initiatives which have the potential to help Abu Dhabi family firms prosper in the future.

The model has its roots in the researcher's involvement in discussions over a two year period of ways of ensuring the successful continuation of the Al-Fahim family business for at least for another generation. These discussions involved members of the first three generations of the business family² and was facilitated by external experts on family business matters. The activities underpinning the development of the Al-Fahim "Family Protocol" included, apart from routine committee meetings:

- Strategy workshops
- Review of family business governance best practices
- Stakeholder interviews and analysis
- Medium and long-term risk assessments
- Testing ideas using the existing Family Council as a reference group

¹ Social scientists, and sociologists in particular, use the term "heuristic device". Marshall (1998) offers the following (abbreviated) definition: "Any procedure which involves the use of an artificial construct to assist in the exploration of social phenomena. It usually involves assumptions derived from extant empirical research...A heuristic device is, then, a form of preliminary analysis. Such devices have proved especially useful in studies of social change, by defining bench-marks, around which variation and differences can then be situated. In this context, a heuristic device is usually employed for analytical clarity, although it can also have explanatory value as a model."

² That is, all the generations of the family with a past, current or future interest in the business.

The model presented here is not simply a representation of the approach adopted in the specific case of Al-Fahim since the circumstances and history of Al-Fahim will be unique. Thus this chapter does not present a case study of Al-Fahim. It does, however, combine the researcher's experience gained from prolonged involvement in discussions of family firm issues with the conclusions drawn from the literature review and analysis of the expert interviews.

7.2 Dimensions of a family business plan

Hubler (2009) argues that family business plans should capture family beliefs, values, and norms, and help to maintain agreements and sustain collective trust. The sub-sections below identify some key areas which any plan needs to embrace keeping in mind Hubler's recommendations.

7.2.1 Balancing family and business goals

When conflict occurs in the family business, it can often be traced to a disparity in the goals of the individuals, whether these are family goals, business objectives or both. Perhaps a family member works in the business out of economic necessity, not because he or she wants to. Or perhaps the potential successor has plans for the business that differ from current management plans or because different generations often have different goals. Whatever the cause, maintaining a balance between family goals and business goals should enable everybody to be satisfied and avoid possible conflicts. Having a clear mission statement is an important element in developing a long-run balance. The mission statement embodies the heart of the business and gives direction to its every facet. Effective mission statements establish the individuality of the firm, define the businesses in which the firm wants to be involved, are relevant to all with a stake in the firm, and are exciting and inspiring.

Good governance helps balance family and business goals although many families are reluctant to address the underlying issues³. Governance needs to embrace the two interlinked areas of governance of the business and governance of the family. This is

³ It may be, paradoxically, that those families who are most need to face the issues are those who are least likely to recognise there is a problem. This is sometimes referred to as the "inverse need" paradox.

particularly the case in Arab countries where the separation of business and family activities is less defined than in, for example, some developed western economies. Most family businesses, especially in the formative years, take on the characteristics of the founder or founding family. Although this entrepreneurial model works well in for a time, as a company grows in size it needs gradual evolution to a different model. This will often require more formal governance systems to be developed. Alderfer (1988) and Bray (2011) note that, in family owned businesses, the family and the business are so entangled that emotional responses to disagreements are unavoidable. Consequently, family firms are often advised to appoint outside board members. For family firms that are not large enough to attract outside board members, Ward (1987) and Tillman (1988) recommended family councils, review councils or advisory councils.

7.2.2 Preserving family heritage and sustaining the business

Zaudtke and Ammerman (1997) proposed four crucial elements to smooth the way for continuous growth in family businesses. These are efficient management, good employment practices, family harmony and effective estate planning. Family business strategic plans should target stability and sustainability. The reputation of the business in the market should be also considered. All of these affect the growth of a business in terms of vertical integration, horizontal integration, diversification, merger or retrenchment (turnaround or divestment).

As Sorenson and Bierman (2009: 193-4) note:

...the heart of family social capital is moral infrastructure: family member beliefs about themselves and how family members relate to one another and to the larger community...

It is thus important to set out a general statement of the values which might underpin the “exemplar” family firm being described here. These are:

- Respect for the heritage of the family and the values⁴ passed down through the generations and particularly the legacy of the founder of the firm

⁴ The Al Fahim family express theirs as “humanity, honesty, substance and foresight”.

- Recognition that the family is stronger if it acts collectively rather than individually, and the importance of collective decision making in maintaining and strengthening family bonds
- A shared commitment to the continuity of the family business
- Understanding that the family's reputation, status and position in society is inextricably linked with the behavior and performance of the family business
- Accountability of executives and managers of the family business to all members of the family and not just those actively involved in running the business and transparency to all family shareholders is important; this includes fairness and transparency in allocating positions in the business to family members

In addition to social capital, family businesses possess family human capital that can be deployed. Family human capital can be willingly exploited if family social capital is strong (Chang et al., 2009). Family human capital embraces individual family member knowledge, skills and experience in addition to energy and commitment. Uniquely to the family business form, family member human capital resources relate to both business and family systems which helps to increase the flexibility of the business to respond to new circumstances (Sharma, 2008).

Family members should recognize the implicit “family contract” or “family bargain” that comes with being part of a successful business owning family. Family members enjoy considerable personal wealth, social status, the security and support provided by the extended family, opportunities to be involved with the development of the business and the access to other opportunities which being a member of a respected family affords. In return the family can expect loyalty, commitment, contribution to the business according to ability when needed, active participation in collective family decision making and behavior which is in accord with family values.

Successful and sustainable family businesses also need to retain skilled employees, particularly as they may have been hired to fill gaps in the family's skills portfolio. They can also bring an important external and dispassionate view of issues facing the business. If

family members are chosen for jobs on the basis of their position within the family rather than their ability, then it is highly likely that the business will lose some of its skilled workers. Nepotism is rarely a sensible promotion strategy. Also, if family members are treated in a different manner from other employees then the same result may follow. The only criterion should be that of the skills and performance of the employee, whether a family member or not.

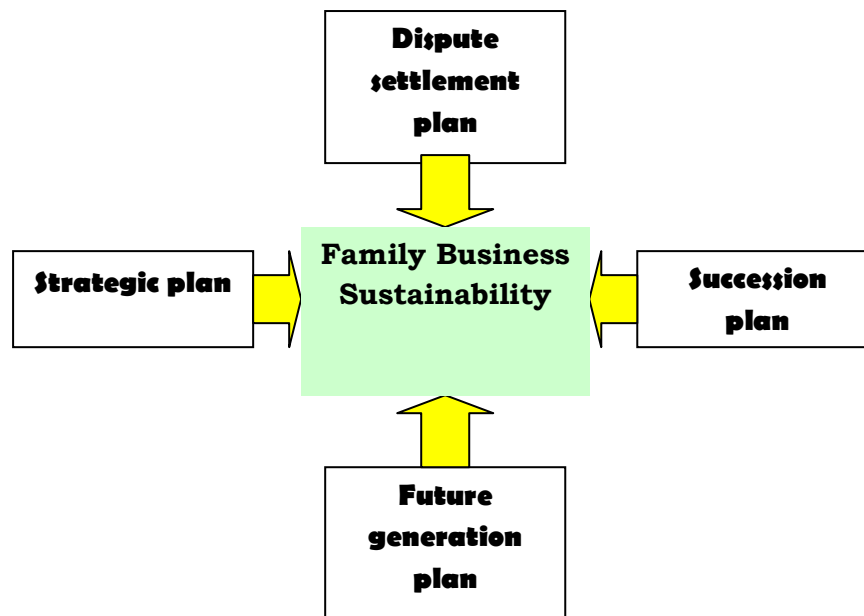
Employees, who are not family members and are not treated comparatively equitably, lose their motivation and may eventually leave the firm. There are two main reasons for non-family employees to leave a family business. Firstly, there may be limited future opportunity in terms of development and leadership positions within the company. This is especially the case if these are given on a basis of family connection rather than ability. Secondly, there may be pressures to conform to behavioural norms which conflict with their professional judgement; non-family employees may find themselves enmeshed in a “conflict circle”. They may be forced to choose between being within the circle of family members with regard to how they approach their work, and performing their job to the best of their ability and in a professional way. If they resist family members’ pressure to conform, they are often excluded and badly treated even though their choice may have been the better business decision.

7.3 The Four Plan Model

Figure 7.1 identifies four key areas where planning is needed in order to help ensure the sustainability of the family business. Of course, all businesses will have a strategic plan and successful family businesses are no different, although the nature of the plans might differ to reflect different emphases in mission statements⁵. Having a feasible strategic plan is essential for family businesses and is a platform for continued sustainability. Family members themselves need to work on planning for their businesses at a strategic level. Davis and Tagiuri (1989) and Shanker and Astrachan (1996) and stress the importance of the family’s influence on setting the strategic direction of their firm.

⁵ In the broad sense of mission statement, that is taken to include vision and values statements.

Figure 7.1: The Four Plan Model



Source: Author

Similarly all businesses will need to plan for the succession of key individuals, but, as this thesis demonstrates, succession issues in family firms have to take into account both family succession and business succession issues. Succession is the process by which family business leadership can be transferred across generations. Its importance comes in helping the business to sustain itself in times of potential crisis. Additionally it can help the company to face a situation when the leadership is suddenly absent for some reason.

However, most people are reluctant to face up to making such contingency plans. Lansberg (1988) states numerous reasons for this reluctance. For instance, the founder may not be willing to stand down from a position of leadership. This leads to a situation where good will and determination are required to handle the situation even if the decision means the ultimate termination of that leadership.

Whilst patrilineal succession rules, like those in Islam, may seem to remove any cause for doubt or reason for dispute, problems may occur if the eldest son is inadequately prepared to take over or does not want to. Family firm principals also, in the interviews, laid stress on the need to prepare the rules and processes for succession rather than wait until they are

needed and business issues are clouded by emotions and eclipsed by family priorities. In addition sustainability of the family business needs to take account of the needs and wishes of future generations. In particular the transition from the second to third generation can be critical. The third generation may not have any direct inspiration from the founder, will be more numerous and, if they are members of a wealthy business family, little need to make an active contribution to the family firm. On the other hand the survival of the family firm will need the active and willing participation of talented members of the third generation.

Family members need to maintain the harmony of the family and try to manage tension and conflicts effectively. Usually the harmony of the family continues to be maintained for the first generation as those who establish the business are determined to succeed and overcome difficulties including any probable disputes. In addition, the number of the family members is still not high when compared to the second and third generations of the company. The higher the number of the family, the higher the chance of variance in character and attitude to other family members which might lead to disputes.

When family members work together, emotions often can or do interfere with business decisions; the possibility of conflict emergence arises due to diversity in perspective on a number of issues and how the issues themselves, once identified can be solved (Stewart, 2003). Conflicts in family owned businesses should be considered differently when compared to disputes in other businesses. In addition to management and control, there are many factors that can ignite the dispute such as the influence of the stake the family has in the business and the issue of pre-existing familial conflicts and disagreements over policy or how that policy is carried out.

7.3.1 The strategic plan

The strategic planning process should recognise the distinctive features of family businesses. For example, Carlock and Ward (2001) argue that there should be a “parallel planning process” which recognises that the family and the business are two interdependent systems where changes which affect one will feed into the other. In addition to the conventional corporate strategic planning activities they add a “family enterprise continuity plan” which regularly audits the future requirements of the business

and the skills and commitments of family members to identify potential gaps and issues. Specific elements of the family business strategic plan include:

- Mission statements which reflect a family's values and basic policies for their business. The entire family should develop a mission statement that defines why family members are committed to the business, which in turn helps in unifying the business vision for the company.
- A means of setting priorities for the family and the business in terms of deciding which will come first, the family or the business. There are three scenarios that family businesses could adopt:
 - Family first: this option emphasises family values and considers that the maintenance of family harmony is more important than the business and how it is run.
 - Business first: the opposite of the previous option, here there is a focus on the value of business as a money generator and it is considered to be the central pillar of financial security for the family.
 - Family and business equal: this option aims to balance family objectives with business objectives. In most instances, this option is preferable and it ensures satisfaction in the family sphere as well as in the business arena.
- Having an exit policy has significant advantages for the business. This is especially the case when it comes to family businesses because such policies help to maintain family relations that pre-existed the start of the business. An exit strategy will cover closure of the business or instigate a legacy policy that perpetuates the company through a change in ownership.

7.3.2 The succession plan

A succession plan should be built around four principles:

- A short succession time. Notwithstanding that succession occurs in four phases; initiation, selection, education and transition, the process should not be a long one. In some cases succession can take three to five years. The succession phase should not be longer than necessary because transitional phases are not good for either the

business or employees. Moreover, there is an element of instability, so the sooner the succession is carried out and finalised, the better for the business. Succession plans should have a timetable. In summary succession needs to be anticipated long in advance and managed as a planned process (see, for example, Dyck et al., 2002; Sharma et al., 2001).

- An early, but not rushed or hasty, announcement of succession has considerable benefit to all stakeholders and influences all elements of the firm's value chain.
- Estate planning is essential in order to clarify issues related to estate status and taxes. Zaudtke and Ammerman (1997) propose that estate planning is one of the important elements for the sustainability of any business. Estate planning is a developing phase that usually comes after having a succession plan.
- There are many forces that confront the process of succession. Usually such forces need to be neutralised in order to acquire a smooth and successful succession. Overcoming the forces that resist succession planning requires a full commitment of family and employees in the business. Involvement of the family council in the succession process can be an effective way of reducing the conflicts between choosing a successor who is most able to manage the business and family hierarchies and influence patterns (Le Breton-Miller et al., 2004).

7.3.3 Dispute settlement

The plan for settlement of disputes needs to embrace family meetings as well as the more usual dispute resolution procedures used in any company. Dyer and Dyer (2009) point out that family relationships can be a liability to the family firm when negative feeling and conflict get in the way of working with each other. Regular family meetings should discuss the general development of the business and family members' internal relations. Sorenson and Bierman (2009) point out the importance of family social capital in successful family businesses. Relationships can be a positive asset when feelings of mutual trust promote cooperation. Family social capital needs investment to maintain and grow it. To this end many families establish family meetings or family councils. Ongoing collaborative dialogue helps family members to remain grounded in their family social structure (Sorenson et al; 2009).

Aronoff and Ward (1992) argued for the importance of family meetings for sustainability of the business:

...Family meetings can help build a strong family and a stronger business. They help the family plan for the future of the business in an orderly and constructive way. In fact, we believe family meetings are one of the two most important steps a business owner can take to ensure the continuity of the family business...

7.3.4 Future generation plan

As Lansberg (1999:5) argues:

...what drives all successions is a vision of the future, hammered out over time, that embraces the aspirations of both the senior and junior generations as well as those of their forebears....a compelling vision of the future is necessary for negotiating the passage to the next generation....The individual Dreams of different generations must be woven together into a shared, collective Dream...

A future generation plan should concentrate on five elements of sharing across the generations:

- Shared legacy and heritage: keeping the uniqueness of the family distinct because every family has its own traditions that make it different from other family. This helps in keeping family members bonded together.
- Shared values: a common understanding of the many things to be shared and held in common between the family members, this should include ideas and views about three main areas; people, work, and money.
- Shared power: mutual respect for the capabilities, abilities and talents that different family members bring to the family business.
- Shared willingness to grow: continually improving and developing the business no matter how big it is. The idea of having ambition on the horizon of the development process should always be there for family businesses especially in the second and third generations.
- Shared care for sustainability: includes avoiding disputes and maintaining warm kinship relations in addition to assisting one another for the sake of business development and family reputation.

7.4 The family firm of the future

This section outlines a possible approach to reconciling the major issues highlighted in the Four Plan model within the overall aim and context of maintaining a large Abu Dhabi family firm in that format for the foreseeable future. At the same time the need for flexibility is recognized in that the business legislative framework in the UAE might change in such a way that the family might opt to convert the firm into a listed public company⁶. At one level down from the business group as a whole the family might also wish to enter or exit individual areas of business. Similarly not all family members may wish to be involved with firm; some may want a flexible involvement.

The model for a family firm outlined here is derived from the concerns and issues raised in the literature review, recognition of the particular cultural and regulatory context of family firms in Abu Dhabi and the author's experiences of working within a major family firm. The model is not presented as a blueprint which all family firms should or might adopt. Nor is there any suggestion that the model is a guide (or part of one) of how to run a successful family business.

In a limited sense the model is also based in "action research". Action research aims to contribute both to the practical concerns of people in an immediate problematic situation and to advance knowledge in a particular area more generally. The evidence base used in action research is the experience and understanding aimed for working, usually with others, on solving a problem or improving a situation. A critical element in action research is engagement in critical reflection. That is, the researcher must make a conscious effort to marry learning from the experience of being engaged in a developmental process which is designed to address a practical problem and the wider body of relevant research evidence.

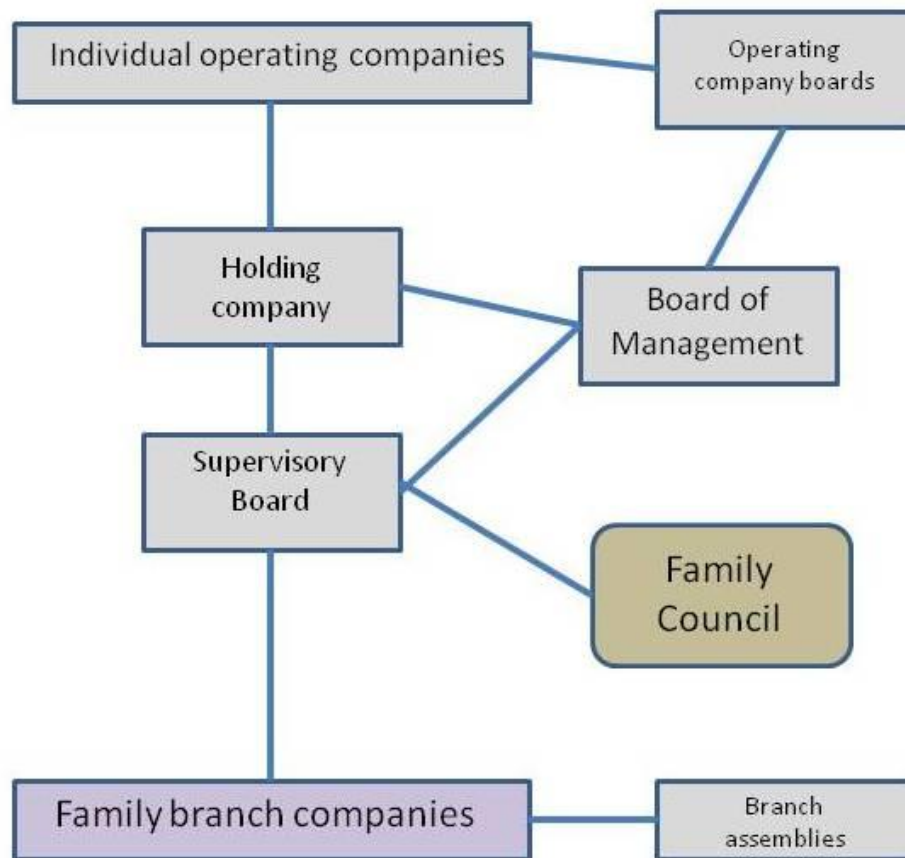
7.4.1 Structure

An outline structure for a sustainable large family firm⁷ is shown in Figure 7.2.

⁶ This option might also be taken as a result of loss of interest by family members in keeping the firm private.

⁷ The structure discussed here is not a tried and tested one. It is one of a larger set of potential structures which could provide for sustainability of family businesses in the particular context of the UAE and Abu Dhabi.

Figure 7.2: Outline structure for a sustainable family firm



Source: Author

In this structure, the family business is owned by a holding company constituted as a Private Joint Stock Company (PJSC) under UAE Law. In turn the holding company holds the share capital of the operating companies which manage the individual business areas in which the family business has interests. Each of these operating companies would be constituted as an LLC under UAE Law. The holding company is managed by a Board of Management on which family members are represented. Family representatives would normally be appointed by the Supervisory Board. The Supervisory Board is the driving force behind the business in respect of all ownership issues and decision-making issues relating to the family business. The holding company Board of Management is accountable to the Supervisory Board and reports to it. The Supervisory Board has the right to challenge the Board of Management. The Supervisory Board is the guardian of the company vision, set the strategic objectives and agree targets for the holding company and appoint the members, from the family and

outside, of the Management Board. This split in responsibilities has similarities to the corporate governance structures common in a number of European countries where there is a concern to reflect wider corporate objectives than simply maximizing shareholder wealth (see Mallin, 2007 for a discussion of corporate governance in different settings). In this case the split in responsibilities reflects the distinction between family objectives for the business (preservation of heritage, providing security and employment for family members, status etc.) and the purely financial objective of maximizing shareholder wealth. Even though the business is solely owned by family members, the structure still benefits from reflecting the need to balance family and business objectives.

The Supervisory Board is the ownership forum of the company and comprises all members of the family who are shareholders in the company. In the case of a UAE company this will normally be all direct descendants of the founder; clearly this number could be very large once a third generation inherits the shares of the children of a founder. One way of keeping membership of the supervisory board to a manageable number is to create a mechanism whereby branches of the family, that is the individual second generation family members (the children of the founder) and their direct descendants, are represented on the supervisory board by a single individual. In this structure the mechanism for doing this is to create individual companies (in LLC format). These LLCs hold the share percentages of the family company as determined at the death of the founder and act in that branch of the family's interests. In the case of the second generation this is very simple; the inheriting son or daughter will normally control the shares and represent that branch of the family and will be presumed to act in their children's best interests. As the third generation inherits shares each individual family LLC will need to elect someone to act on behalf of all shareholders from that branch. Each family LLC will be prevented from carrying out any business other than holding shares in the family company. As the number of family members in each branch grows it may be necessary to adopt a similar structure at each branch level as for the business as a whole. In this case (family) branch assemblies would be created to discuss issues and reach a consensus position. However, each family LLC would still only have one member on the Supervisory Board whose voting rights would be determined by the shareholding percentages at the time of inheritance by the second generation family member.

This structure avoids simplistic arrangements which would reduce the necessity for family cooperation but would run the risk of diluting family traditions and values. For example, one possibility is to align family branch companies with the operating companies where possible, that is each branch of the family would take control of a part of the business. However, this might rely on their being a sensible way of breaking down the family business into a number of units equal to the number of family branches⁸ at a particular point in time which cannot be controlled by the family. It would also be a recipe for jealousy and dissent if external circumstances changed so as to differentially affect the prospects of the different businesses. The structure proposed here will allow and even encourage individual family members to be involved in particular lines of business in accordance with their interests and talents, but to the benefit of the family as a whole.

The family branch company structure does have a potential weakness over time. As successive generations inherit the family LLCs there is a potential for some of them to be headed by daughters. This could lead to in-law participation in the family firm. Whilst this would be considered a natural progression in some contexts, Islamic custom and practice, Shari'ah Law and some elements of UAE company law would be at odds with in-law participation in the family business. More generally, over time, there could be a tendency for some family LLCs to wish to sell some of their shares or make transfers to parties outside the direct family bloodline. One possibility for avoiding such conflicts would be to create a company which holds a "golden shareholding" and associated veto rights in each of the LLCs. Such a company could, for example, veto in-law participation in the PJSC, overrule the appointment of family representatives to the Supervisory Board or veto transfers of shareholdings. The "gold company" forms a ring-fence between the family LLCs and the PJSC thus reducing the impact that disagreements at the family branch level might have on the family business.

The specific business sectors in which the family business has interests are managed by individual operating companies; these form a portfolio of businesses over which the holding company has overall control. Each operating company has its own board of directors

⁸ In Shari'ah there would be the additional complication of ensuring that these units were all the same size in value terms.

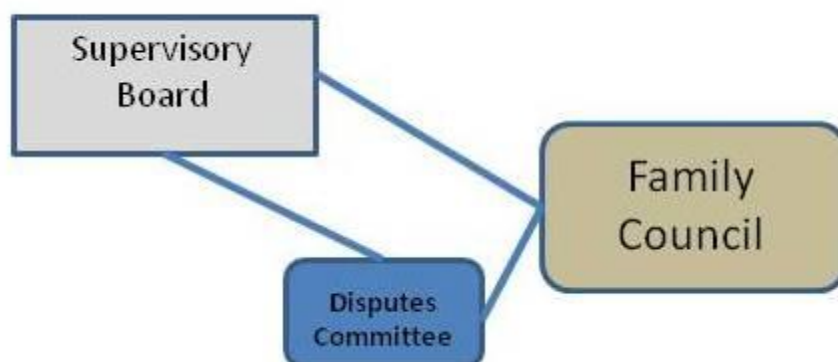
including family members. Directors, including family members, are appointed by the Board of Management of the holding company.

The Family Council can be a formal sub-committee of the Supervisory Board or can live outside the family business governance structure. In either case the Supervisory Board should delegate all issues which have an emphasis on family matters, as opposed to share ownership issues, to the Family Council. In particular this includes arbitrating on family disputes, preserving the family heritage and some elements of family employment policy. All members of the family⁹ over a specified age should be eligible to be members of the Family Council.

7.4.2 Dispute resolution

Figure 7.3 shows a potential approach to settling disputes between family members.

Figure 7.3: Mechanism for dispute resolution



Source: Author

⁹ In Shari'ah this would be defined as all direct descendants of the founder and exclude in-laws. Shari'ah also promotes equals treatment of all family members whether they are involved in the business or not. Thus all family members would automatically be members of the Family Council. In other cultures the position might be different. For example, in a study of US family councils Tower et. al. (2007) found that only about half included family members who were not employed in the business and 22% allowed participation from in-laws. They also conclude from their research that the more inclusive family meetings are the better they tend to work.

The Disputes Committee is formally a sub-committee of the Family Council and membership determined by that body. An alternative name would be “arbitration committee”. The Disputes Committee reports to the Supervisory Board where the matter raised is one of ownership (shareholder) rights in the family business and to the Family Council where the matter is a family one. However, there are a number of areas where the responsibilities of the Supervisory Board and the Family Council could become confused; in particular these are:

- Disputes which have both a family element and a business element
- The positions, promotions and development of family members wishing to work in the business or who are already employed in the business

In both cases protocols governing who does what would need to be drawn up.

7.4.3 Future generations

The research literature on family business success and sustainability strongly suggests that mechanisms be put in place to involve the future generations of owners. This is particularly important in the case of the shift between the second and third generations. The second generation will not normally be so numerous as to become unwieldy as a group. They will also have direct links with the founder of the business and will have seen it grow organically from (presumably) small beginnings. The third generation is likely to be quite large in number and is at one remove from the founder. The needs of the family business to ensure that third generation leaders emerge and are ready to take over key positions in the business need to be balanced against the fact that not all third generation members can be accommodated in senior positions within the business. It is also likely that some of them would not wish to work in the family business.

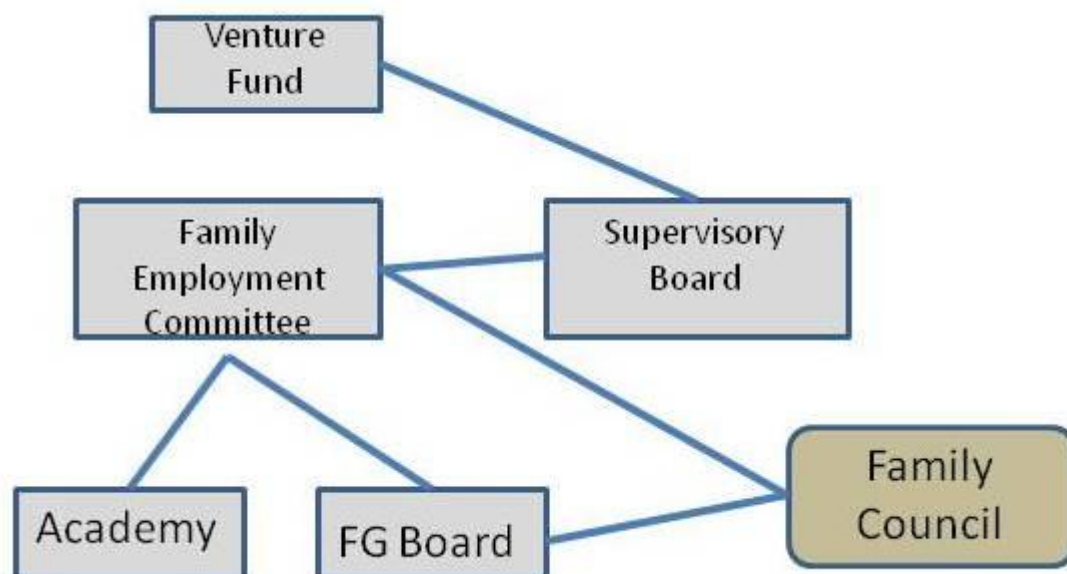
The future growth of the family business will also depend on the ability of the future generations to foster innovation and develop new lines of business activity. They will need (collectively) to be innovators as well as managers and leaders. It is important to:

- Prepare members of future generations to take over the key positions in the family business

- Ensures that, in a situation where the family business cannot provide suitable positions for all family members who wish to work in the business, employment decisions are taken on the basis of ability and merit in culture of trust
- Ensure that the family business harnesses the talents of the upcoming members to promote continued growth
- Encourages the next generation to innovate
- Provides support for those members of the family who wish to develop their interests outside the family business

Figure 7.4 illustrates a means by which these objectives might be implemented.

Figure 7.4 **Developing future generations**



Source: Author

The Family Employment Committee is responsible for assessing the abilities of any family member wishing to be employed within the family business. If the committee deems a family member to be suitable for employment, then an interview process relative to a specific position will be instituted. The committee will fix the remuneration and benefits packages of the family member. Once employed the committee is responsible for

performance review, promotion, termination of employment, training and development and any other related human resource issues¹⁰. In conducting their work the committee will need to have regard for:

- Consistency in decisions
- Fairness
- Wider labour market conditions
- Commitment and loyalty to the family business and its values

In employment matters the committee reports to the Supervisory Board.

The (family education) Academy invests in the education, broadly defined, of future generations. It encourages, supports and guides family members at all stages in their lives in the development of the skills and capabilities, for example through placements, internships, secondments, mentoring and coaching. In addition the academy provides induction into the family business whether the family member intends to seek employment within it or not. The Academy should be the responsibility of the Family Employment Committee who, on these matters, will report to the Family Council.

The Venture Fund provides a means whereby future generations of the family can access the financial and human capital of the family to set up new businesses. Essentially it provides the opportunity for future generations to build new businesses which do not compete with the family business. It also allows the family business to invest in new ventures set up by family members. The parties to the start-up business will be the family member bringing the idea and the Supervisory Board acting through the Venture Fund.

Future generation members should themselves have an influence over matters of direct interest to them. To this end a Future Generations (FG) Board can be set up to support the Supervisory Board and Family Council on various issues, but particularly the structure and operation of the Venture Fund and the Academy. The performance of the FG Board should be monitored by the Family Employment Committee.

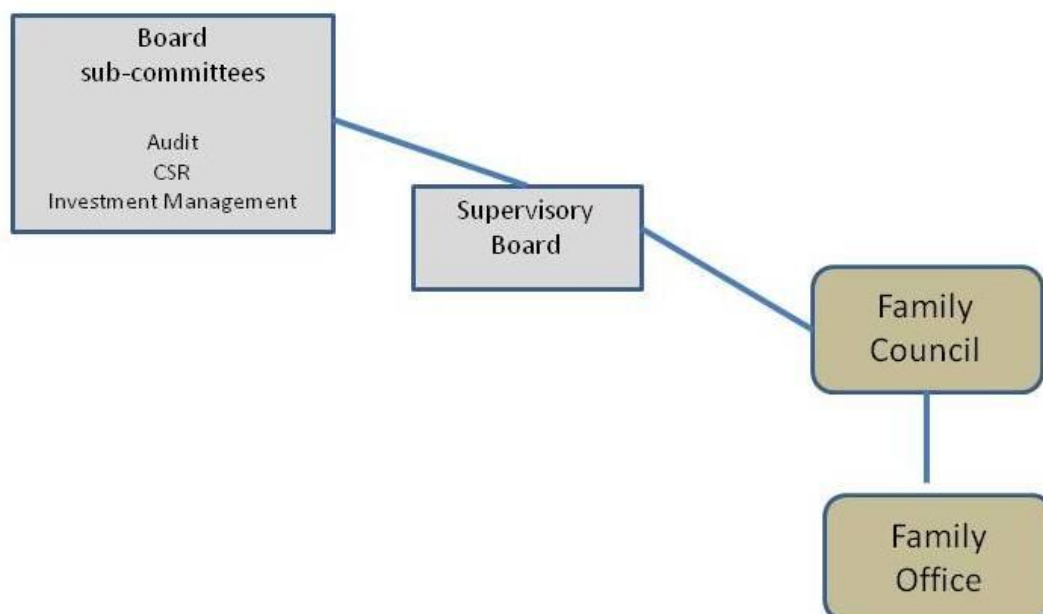
¹⁰ Although it may be sensible to delegate some of these matters to an HR department.

Of course, other structures and mechanisms can achieve the same ends. However, taken together, the venture fund, the academy and the FG Board provide a way of involving future generations in the family business, of actively promoting innovation and taking collective responsibility for the development of family members. Should the outturn be employment in the family business then the Family Employment Committee ensures that the process of induction and further development is continued in a seamless way.

7.4.4 Sub-committees

The family firms discussed in this thesis are large and complex organisations and organisational structures need to be designed to manage this complexity effectively, that is without overloading any particular element of the structure. In particular the Supervisory Board needs to be able to focus its activities on higher level strategic planning and performance monitoring activities. One obvious way to prevent distracting the Supervisory Board from higher level tasks is to delegate some of its work to sub-committees. Similarly the Family Council could easily become distracted by routine administrative or other issues which are not effectively dealt at the higher level. Figure 7.5 shows a possible sub-committee structure.

Figure 7.5: Sub-committee structure



Source: Author

The Supervisory Board sub-committees shown are only indicative of the range that is possible. However, it is likely that sound corporate governance can only be achieved if there is strong Audit Committee reporting to the Supervisory Board. The CSR Committee deals with the Corporate Social Responsibility activities of the family business. This is distinct from family charity giving which would be managed by either individual family members or, potentially, the Family Council¹¹. The Investment Management Committee looks after the investment portfolio of the family business, including investments in new business ventures. This could, in turn, include oversight of the investments made by the Venture Fund. In addition to the need to invest wisely in a financial sense, the committee would need to determine its ethical policy in the light of Shari'ah principles. These, for example, proscribe involvement in alcohol promotion, some food-related activities, gambling and financial transactions based on *riba*¹².

The Family Office may seem irrelevant to the family business. The role of the Family Office is to provide private services to family members. These include professional, administrative and secretarial services as well as domestic and maintenance support and health services¹³. As well as providing support to family members, the Family Office relieves the tensions which could be created where family business employees are unofficially asked to provide private support to some family members. This, apart from the inequity this would create between family members, could place employees in difficult and professionally compromised positions.

¹¹ The tradition of giving is prominent in Islamic societies. Muslims are expected to give a proportion of their wealth to charity, a practice known as Zakat. This tradition has led to the emphasis on CSR activity in Arab countries being placed on corporate philanthropy rather than concerns such as environmental protection or using the firm's wider human and other resources for CSR purposes (Ronnegard, 2009). However, there is evidence that this stance is shifting and that Middle East businesses are recognising the potential positive aspects of well-managed CSR activity on corporate performance (Sustainability Advisory Group, 2010).

¹² A term which is sometimes equated with interest. However this is simplistic interpretation would seem, to some, to rule out all forms of banking activity. In Islam risk-taking and thus financial risk premiums for lending are prohibited as is taking a return on the loan of capital where there is no effort involved. The selling of banking services allied to lending is not prohibited.

¹³ Of course such services could be provided in other ways which may be more efficient and effective than running a Family Office. In such cases the Family Office may not be necessary. The point is that services should not be provided to the family by the company on an ad hoc or unofficial basis. It is important to keep a separation between family and business affairs at this level.

7.4.5 Involving non-family members

Overall, research results do not reach any strong conclusions concerning the benefits of the involvement of outside professional managers in family firms (see Dyer, 1989) or on the relationship between firm performance and the involvement of non-family members in governance structures (Sharma, 2004 and Lee, 2006). However there are a number of ways in which outsider involvement can be potentially helpful:

- To fill gaps in the managerial and professional skill sets of families
- To provide a broader range of perspectives on business issues
- To provide an impartial middle ground in the case of policy and strategy disagreements between family members
- To ease transitions between generational ownership

In addition, in overall terms, research suggests that businesses which have more balanced governance structures and are open to a wider range of influences and opinions tend to perform better over the long run.

Balanced against this is the desire of family firms to keep their business dealings within the family and keep outsiders off company boards for privacy reasons. It may also be that outsiders do not share the vision and values of the family and can therefore dilute family social capital. However, it is potentially useful to have a structure which permits outsider involvement if this is deemed to be useful or necessary. The structure outlined here has some obvious opportunities:

- External, but trusted and known participation, on the Disputes Committee
- Professional involvement on the Audit Committee
- Membership of the boards of operating companies
- Membership of the Board of Management
- Professional advice to the Investment Management Committee

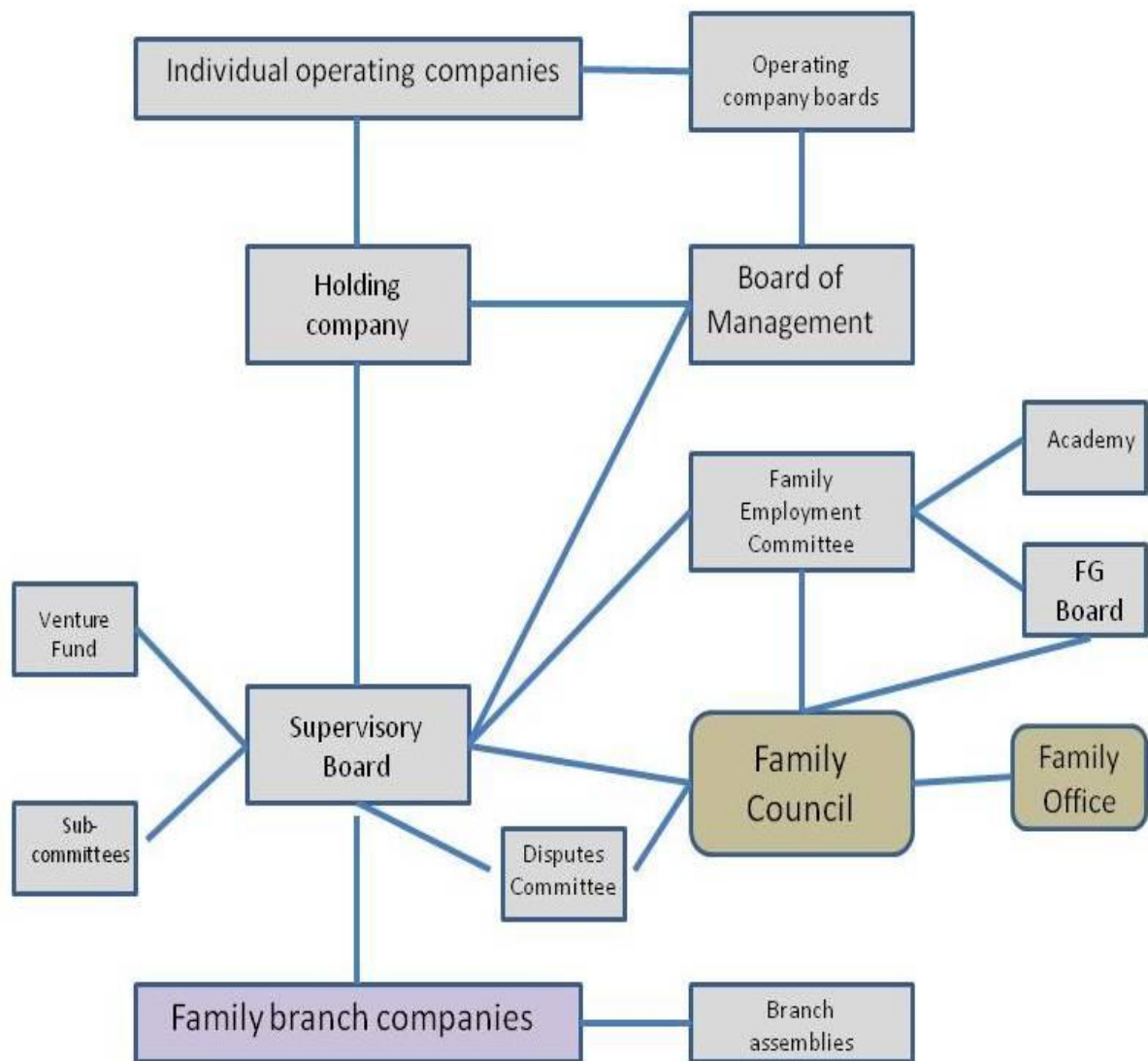
7.5 Summary

Figure 7.6 presents a summary diagram of the possible structure for a sustainable family firm in Abu Dhabi¹⁴. Whilst it is presented as a structure diagram it is a device for summarising the major issues raised in this thesis. Clearly the structure needs to be accompanied by the business infrastructure of protocols, policies, employment contracts, role descriptions and so on; these will reflect the particular nature and circumstances of the firm.

The chapter heading refers to a “model” for family business sustainability. The almost timeless debate between structure and strategy (see Chandler, 1962 for the classic exposition of the view that structure follows strategy) underlines the need to consider both elements of the business. The structure here is based on a strategic imperative of maintaining the business as a family business in the long term by exploiting the strengths of the family business form whilst at the same time recognising areas of difficulty and potential weakness. The structure outlined here allows the family firm to adapt to the changing internal (family) and external (market) environments and recognises that the family-business balance will change through time and will differ for different members of the family.

¹⁴ This has been slightly redrawn compared to the previous sub-diagrams to avoid the need for crossing lines.

Figure 7.6 **A structure for the sustainable family business**



Source: Author

Chapter 8

Conclusions

8.1 Introduction

This thesis aims to analyse the importance of the largest family firms in the Abu Dhabi economy now, and provide a critical analysis of the future prospects for the largest family firms in Abu Dhabi in the period to 2030. It pursued this overall aim through a exploration of a number of objectives; to

- Provide an up-to-date assessment of the importance of family firms in the Abu Dhabi economy
- Set Abu Dhabi family firms within the changing political and social context of the developing UAE economy
- Analyse the external and internal environmental challenges which Abu Dhabi family firms are facing
- Make recommendations for the way in which family firms might develop themselves to ensure their future prosperity in the medium term

The overarching question which this research explores is:

What are the future prospects for the largest family firms in Abu Dhabi?

This major research question is investigated through attempting to answer a number of sub-questions:

- *How have large family firms developed in the Abu Dhabi economy?*
- *How important are larger family firms within the economy?*
- *What are the challenges and threats, both internal and external, to future development of family firms in Abu Dhabi?*
- *What are the opportunities for, and expectations of, family firms in Abu Dhabi?*
- *What strategies and policies are likely to be needed to ensure the future sustainability of family firms in Abu Dhabi?*

8.2 The contribution of the research

This thesis draws on, and contributes to, a very wide literature on family firms. The contribution is based on adding to the stock of literature by reporting on family firm issues from a context other than those which feature strongly in the existing literature. Surprisingly little has been written about family firms based in the Middle East, let alone those from Abu Dhabi or even the UAE. From a cultural perspective the same is true; little attention has been paid to Arab family firms or the Islamic context of family firm business. These are major gaps, both because Arab family firms are worthy of study in the own right and the greater understanding of family firm issues in general which is afforded by the enhanced ability to compare those issues from a wider range of perspectives.

Furthermore, this thesis has chosen to concentrate on the very largest family firms in Abu Dhabi. As noted at several points in this thesis, this choice creates significant problems for the researcher. The principal of these is lack of data. This creates a difficult choice. Either the research topic might be rejected on the grounds that it would be difficult to say anything of interest which goes beyond assertion or conjecture, or the researcher carries on and uses what little data is available. It may be that previous researchers have adopted the first position. In this case the ability of the researcher, which would probably be denied to others, to gain access to expert interviewees swings the choice towards the second option.

The largest family firms in Abu Dhabi are also worthy of study because they have a number of interesting characteristics. Firstly, many of them have either recently made the critical transition from ownership and control by the founder to second generation ownership or will need to do so in the near future. Secondly, the largest family firms in Abu Dhabi are large, sometimes very large, enterprises. In several cases they have grown to the extent that they are beyond the capacity of the family to manage effectively. The unitary, single business structure of many family firms can no longer serve the needs of the complex, conglomerate nature of the business. This is forcing business owning families to consider the distinctions between ownership, control and management and re-examine their corporate governance structures. The more informal structures and mechanisms which may have served family firms well in the early stages when they were smaller and the founder was still in control are probably inadequate to sustain the business over the longer term.

Thirdly, the families are becoming larger. Whilst the businesses may have grown too large for the families themselves to manage without outside help, families themselves may have grown too large to provide suitable positions in the family firm for all those who want them. On the other hand, it may be that some family members do not wish to be active in the management of the family firm but do wish to maintain active shareholder participation. In turn this is prompting business owning families to, perhaps for the first time, explicitly consider the relationship between family and business. The taken-for-granted almost complete overlap between family and business which characterised first generation family businesses is challenged when members of the family have different relationships to the business.

Fourthly, the UAE and Abu Dhabi are small open economies exposed to the forces of international competition and global markets, particularly for specialised inputs. In some cases the firms studied in this thesis have grown to the extent that the regional (GCC) market will not support further expansion. One potentially attractive option in this situation is to work with international partners to gain access to a wider range of markets and opportunities. There is, however, a potential downside in such a strategy if foreign partners, in turn, wish to exploit the family firm partner's position in the domestic market in ways which weaken their traditional ties and networks.

Finally, the Abu Dhabi Vision 2030 identifies the main issues which underlie planning for a sustainable economic future for Abu Dhabi. Abu Dhabi's economy is moving towards the expansion and diversification of its domestic production base and sources of income. Diversification is being pursued on the basis that balanced access to a strong economy is needed to avoid the adverse effects of volatile oil revenues and/or the vagaries of the stock and real estate markets. Abu Dhabi is now entering a new phase of development by moving from a public sector driven economy to one in which the private sector becomes the engine for growth. Private companies are being encouraged to enhance their participation in public-private partnership infrastructure projects in, for example, the power, water, sanitation and public transportation industries. The Abu Dhabi Vision 2030 sets a benchmark for raising economic performance. In particular, it promotes a new direction to the roles of both government and the private sector in major economic developments and concentrates on the implementation of best practice. The aim is to further activities aimed at achieving

local prosperity on the one hand, and promoting Abu Dhabi's regional and global status, on the other.

In summary, the vision for Abu Dhabi is to build a sustainable and diversified, high value-added economy that is well integrated into the global economy and provides more accessible and higher-value opportunities for all its citizens and residents. These aims will be achieved through pursuing three main objectives:

- Reducing GDP volatility through diversification
- Enlarging the enterprise base
- Enhancing competitiveness

Family firms form by far the largest part, probably up to 90%, of the private sector in Abu Dhabi. It is not unreasonable, therefore, to take the aspirations for the private sector in Abu Dhabi to be those for family firms, including those studied here. The private sector, according to the Vision, is to be "fully engaged" in the implementation of all policies and plans which underpin achievement of the Vision. Among other implications, such a development path transfers the responsibility for generating suitable employment for nationals from the public sector to the private sector.

8.3 How have large family firms developed in the Abu Dhabi economy?

Whilst the family firms studied in this thesis have relatively recent origins, many of the families can trace their business interests back to one or more generations before the founders of the current firms. Their origins were mainly in trading and traditional activities such as pearl fishing. The origins also go back before the creation of the UAE in 1971. Tribal loyalties and influences, although they still exist today, were much stronger. The discovery and exploitation of oil created opportunities for the existing merchants to develop new businesses. Whilst oil extraction activities are controlled by the state (that is, the ruling family) the opportunities to supply services to the oil industry and develop businesses in the infrastructure development arena were exploited by the merchant families who had both entrepreneurial talent and close ties to the ruling family. As the economy and the wealth of its citizens grew, family businesses diversified further into retailing, real estate, distribution, tourism, hotels, construction – any activity outside oil extraction and basic infrastructure development. Family firms were aided in this diversification by three significant elements of

protectionism. Firstly, access to government contracts was easier for businesses controlled by families who were known and trusted by the royal family. Secondly, the Agency Law creates and maintains local monopolies for agency holders. Thirdly, company law limits foreign ownership in UAE registered companies to 49%. In addition, oil revenues created a long period where capital was cheap and abundant.

This pattern of growth, which is essentially one of opportunistic diversification, is not without problems. Several of the family firms studied here are remarkable in their breadth of activity as well as their size. This has created firms which have portfolios of activities which lack a strategic logic. The recent global financial crisis has exposed the Abu Dhabi economy to the kind of external pressures which it had been largely immune from. In particular, the exposure of the economy to volatility in oil revenues is a major factor underpinning the emergence of structured strategic planning in Abu Dhabi, as expressed in the Vision 2030 and, increasingly, in plans which cascade from it. The next phase of development for large family firms in Abu Dhabi will require a more strategic approach to business planning as part of an effort to ensure the long-term sustainability of the business(es). External pressures will outweigh the relative lack of internal competition; the expectations for family firms implicit in the Vision 2030 will need responding to.

8.4 How important are larger family firms within the economy?

The lack of data on family firms in Abu Dhabi has been remarked upon repeatedly in this thesis. However, it may be useful to make some estimates of economic importance, even though these should be treated with a great deal of caution. If we take 2009 as an example year¹, the share of the private sector in gross GDP was approximately 22%, or AED120bn . The data in Table 4.1 would seem to indicate an aggregate annual turnover of at least AED60bn for the eleven largest firms². Thus the largest family firms would account for about half of all private sector activity or about 11% of GDP or about 22% of non-oil GDP. Given the low level of employment in the highly capital intensive oil extraction sector, where the private sector takes no part, the figures are different. Total employment in Abu Dhabi in

¹ Although 2009 may not be typical given the fall in oil revenues during that year.

² The data in Table 4.1 is limited. However if we compare the turnover, asset bases and employment figures which are given and assume that the remaining firms are small relative to the rest, a figure of 60bn AED would seem to be a conservative one.

2009 was approximately 843,000 of which 784,000 worked in the non-oil sector. Based on the data in Table 4.1 the eleven largest family firms employed in the region of 60,000 people or 7.7% of the non-oil total. If we add to this direct presence the indirect one due to the multiplier effects on other family firms through the supply chain then it is safe to conclude that large family firms hold a critical economic position in the Abu Dhabi economy. The share of the private sector in Abu Dhabi GDP is planned to rise from 22% in 2009 to 32% in 2015, a 50% increase in size of the private sector (DPE, 2008).

However, “importance” has a number of dimensions. Whilst it is tempting to focus on economic importance, family firms are also important in strategic, political, social and cultural ways. The strategic importance of family firms has already been alluded to in the discussion of the Vision 2030. Given Abu Dhabi’s goals of

- Diversifying the economy away from oil through growing non-oil sectors faster than the oil sector
- Reducing the size of the public sector
- Creating more varied and attractive employment opportunities for nationals, and
- Becoming a knowledge-based generator of innovation rather than an importer of innovation

then the private sector, and, by extension, large family firms, assumes a central strategic position in the economy.

The political importance of large family firms derives from the families rather than the businesses they control. Few of the family businesses operate in sectors which are critical to government operations or retaining its popular support. However, the families themselves are politically important. Historically it was the families’ ties to the ruling family which helped them develop their business interests rather than the reverse. The business owning families occupy positions of respect and high status among nationals and their continued support is vital to maintain the ruling bargain. This position is likely to be strengthened if family firms do become significant employers of nationals other than family members.

Culturally and socially family businesses are important in maintaining Arab business values and ways of operating. Family firms provide a buffer between the cultural influences and business practices which international firms bring with them and Arab behavioural norms. These cover obvious areas such as treatment of women in the workplace, but also embrace negotiation practices, contractual arrangements, social interactions and the building of mutual trust.

8.5 What are the challenges and threats, both internal and external, to future development of family firms in Abu Dhabi?

The internal challenges, for the firms in this study at least, are the product of success. The firms researched here are survivors and have passed through some of the most difficult stages that confront all family firms. Those that have passed in to the hands of the second generation now have to face the complexity of having multiple family members as owners and need to devise ways of ensuring that the difficulties of satisfying the growing range of aspirations of future generations do not add a degree of complexity to the governance of the firm which overwhelms it. At the same time these family firms have grown in a reactive way, responding to the opportunities which a rapidly expanding economy has offered. It seems unlikely that such a period of rapid growth will repeat itself in the foreseeable future.

A major external challenge is again a product of past success; some of the firms have outgrown their regional markets and the opportunities for easy growth are becoming exhausted. Having built a strong domestic market base, the larger family firms need exploit that platform to tap into wider markets. This is likely to involve partnership with international firms and a move away from the relatively straightforward role of local agents. The more successful family firms have already made progress in this direction and moved towards a wider partnership with their foreign principals.

Whilst family firms in Abu Dhabi may have, in the past, only competed in a limited way in output markets they have always competed globally in the specialised labour markets for managerial and professional talent. In the future, if Abu Dhabi is to become a generator of innovation, family firms may have to compete in the markets for scientific and technical talent as well. This may prove difficult given the current lack of research infrastructure in

Abu Dhabi, particularly the softer aspects³. Expansion will also require further investment, not just in financial terms but in people, ideas and technology. Such investment may come from foreign partners. It may also be that family firms will need to broaden their access to financial capital. Whilst “name lending” and internal family sources may have been sufficient in the past, they may not be so in the future. Whatever route is taken to access additional sources of capital, for example IPOs, private equity agreements or overseas borrowing, it is likely to involve a greater degree of disclosure to outsiders of family business dealings than has been the norm. Whilst converting to public companies and full disclosure is not on the agenda for these family firms at the moment, it is unlikely that current levels of secrecy can be maintained. One way of dealing with this is to have a greater degree of separation between family and business assets than may have been the case in the past.

The major threats to family firms derive from the possibility that the legislative and regulatory environment might change in ways which family firms perceive as damaging. There are three main areas where change is being debated, although no actual changes have been introduced to date. A number of changes to Agency Law were introduced in 2006 which were not in the obvious interests of family firms. The major one of these was a significant loosening of the conditions under which principals could end agency agreements. Whilst early termination was not made easier, termination by non-renewal was only subject to a notice period. This allowed agents to operate agreements via a series of fixed-term agreements and shop around domestic firms for deals in their interests. These provisions of Agency Law were reversed in 2010 and the balance of the law is in favour of protection of the agents. However, the UAE has signed the GATT and it is possible that UAE Agency Law may be challenged as contravening the rules of GATT. The second possibility is that laws on foreign ownership of UAE firms may be relaxed. At the moment, with some exemptions, foreign firms are forced into the arms of UAE nationals. The downside of this from a UAE perspective is that such restrictive arrangements may discourage foreign direct investment. This in turn makes the aspiration of creating a knowledge-based economy more difficult to realise. Finally, there are consistent calls from some quarters for improved corporate

³ Researchers are attracted by excellent laboratory and research facilities and good pay. However they are also motivated to be with other researchers and work within a supportive environment which does not always demand immediate results. The reputation of the institutes where they work is also important.

governance standards to be introduced. In particular greater transparency has been called for, particularly in the wake of the near collapse of a number of Dubai entities.

8.6 What are the opportunities for, and expectations of, family firms in Abu Dhabi?

The major opportunities for family firms are those inherent in the Vision 2030 strategy. The Department of Planning and Economy (DPE, 2008) stated:

...The private sector is a main player in materializing Abu Dhabi economic vision, which requires Government to provide every possible support for this sector, ease regulations and increase investment opportunities in order to share effectively in the Emirate development and modernization...The purpose is to create for the private sector a healthy, stimulating environment to bolster competitiveness regionally and internationally...

The greater role mapped out for the private sector can only be achieved through a more structured and strategic partnership between the government and private sectors. This will probably come about as result of a greater degree of separation between the activities of the royal family and government agencies. In particular more power and responsibility is likely to be devolved to government agencies coupled with a requirement to work in partnership with the private sector in economic development and planning matters. As part of this the government plans a programme of privatisation covering aspects of the utilities, infrastructure, education, health and social welfare sectors. In addition to partnership with government, family firms have opportunities to build creatively on their existing partnerships with international firms.

The main expectation of the private sector is that it will become the major employer of nationals, taking over this role from government. The current Emiratisation policy only requires private sector firms to employ a minimum of 2% of nationals in their workforces, that is about 1,200 people out of a national workforce of over 90,000. Overall the private sector only employs approximately 2% of nationals, so there is no evidence that there is pressure from workers themselves for jobs in the private sector. Four other factors need to be added in. Firstly the working population of Abu Dhabi nationals will naturally increase as today's youth enter the labour force. Secondly there is a substantial degree of unemployment among young emiratis that the government would like to see reduced.

Thirdly, there is growing demand by women for jobs and female participation in the labour market has been rising. Fourthly there is a substantial degree of underemployment in the public sector. Taken overall this shift in employment sectoral patterns will require major change. Not only will the supply of private sector jobs need to increase dramatically, so will the demand for them. For the private sector to become the employer of choice, there will have to be significant social change in the attitudes and expectations of nationals concerning employment. Even if pay and working conditions were comparable, the perceived inferior status of private sector jobs would still be a barrier. In effect public sector employment policies are “crowding out” private sector employment (Chartouni, 2009). One policy response is for the government to reduce the attractiveness of public sector jobs; a reduction in public sector pay rates can have a positive effect on unemployment by inducing workers to shift to the private sector. Needless to say, such a policy would be extremely unpopular amongst nationals and would engender resentment particularly when labour market conditions are tough.

8.7 What strategies and policies are likely to be needed to ensure the future sustainability of family firms in Abu Dhabi?

The kind of strategies which family firms themselves should follow is the main topic of Chapter 7, although there are other considerations. The most important elements of the interplay between family and business are:

- Clarifying, where necessary, the boundaries between family and business. It is likely this will involve a shift along the continuum from “family first” to “business first”. However if this shift is undertaken in an unplanned and ill-thought through way the inevitable result will be confusion. It is also the case that some matters will remain family first whilst others will be business first. The one area where family and business should be inseparable is in terms of a shared value system.
- Making explicit elements of the business which had formerly been implicit. This includes agreeing family business protocols covering the vision, values, aims and objectives of the business, investment policy, employment policies for family members, representation of family members in the governance structure of the family business, disputes resolution procedures, reporting and accountability rules,

inheritance rules and so on. This process has value in its own right and not just in terms of its outputs.

- Creating a business governance structure which is fit for purpose and reflects the size and complexity of the business as well as the management resources available within the family. The governance structure should reflect the differences between ownership, control and management which arise as the business grows and the founder is no longer the owner-manager-controller. The position of outsiders in the governance and management structures should also be considered. The structure should also be flexible enough to cope with the increasing number of family members and the greater range of interests in the family business that they might have.
- Creating a family governance structure which involves all members of the family whether they take an active role in the running of the business or not. This is likely to take the form of a Family Council which feeds into the board structure of the business. The Family Council will also oversee policies and procedures which govern the employment of family members within the business, subject to the availability of employment opportunities within the firm. The Family Council is also the guardian of family values and reputation and monitors family firm activities accordingly.
- Ensuring that the business and family governance structures work together (holistically) to the benefit of both the family and the business.
- Involving the next generation of family members in family business affairs and preparing interested ones to take over when the time is right. This is not simply a matter of succession planning, but is also one of preserving the family ethos and family business values. Regularly scheduled strategic planning meetings that include both the current generation of owners and the future generation can be invaluable in ensuring the continuity of the business (DIFC, 2009).

Family businesses will also need to institute a structured process of strategic planning. Small family businesses often have an informal strategic planning style and may not even recognise that what they do is, in effect, strategic planning. The larger family business cannot afford such informality. The strategic planning process is likely to involve a review of

the portfolio of businesses owned and activities undertaken by the family firm to achieve greater coherence of the business overall and establish criteria to help decide which activities the family business should enter and, potentially, exit. Portfolio rationalisation will also be a major component of improved risk management (BI-ME, 2011).

It is also clear that family businesses, in order to be successful in the future, will have to reassess the way in which they work in partnership with both the government and foreign firms. Many family businesses in the UAE and Abu Dhabi have achieved success through being agents for international companies. In some cases principal-agent relationships have developed into strategic partnerships to develop the market for the benefit of both. In future it is likely that both principals and agents will look towards more strategic partnerships which extend beyond traditional distribution, marketing and representation to embrace more upstream activities. Strategic agendas will need to be worked out with both government, probably via its planning agencies, and international partners. In the case of international partners such agendas will cover the potential for investment by the partner in the family firm (covering financial, human and intellectual capital) and the possibility of presence in the management structure. Relationships with the government may develop on a project basis as more infrastructure developments are undertaken with significant private sector involvement (Oxford Business Group, 2011).

It is also important to consider the institutional framework within which family firms operate. Porter (2010) regards the level of sophistication of family firms in the UAE as follows:

...the traditional local sector is weak...old family groups focusing on retail/wholesale trade, often as local partner of multinationals subject to limits on foreign ownership...

One consequence of this, in Porter's view, is that entrepreneurship and new firms play a very limited role in promoting competitiveness in the economy. In particular they are not sources of innovation. Nor, as noted at a number of points in this thesis, do they create varied and interesting employment opportunities for nationals. As Zamzam (2011) argues, there is, in Abu Dhabi, very little active engagement between industry and higher education of the type which would foster innovation and the development of a knowledge-based

economy. Similarly the relationships between domestic family firms and their international partners are not focused on inward technology transfer.

8.8 Future research

This research has strengths and weaknesses. Its strength lies in giving voice to the opinions of principals of major family firms in Abu Dhabi. Its weakness is that it only considers a narrow range of perspectives. However, any doctoral research programme has to be limited in its scope if it is to produce worthwhile insights. A thesis such as this is contribution towards a wider research effort and should add to the stock of knowledge we already have on a particular area of interest. Hopefully, it succeeds in making a useful contribution to our understanding of family firms in general. However at the more specific level of family firms in the Middle East it is one of a very sparse set of contributions. Where family firms in Abu Dhabi are concerned it stands alone. The possibilities for future research are easy to identify.

Case studies provide an obvious opportunity. These could take the form of a business history focusing on a particular family firm or could look at a family firm at a particular period of time from a variety of perspectives and deploying a mixed methods research approach. It is likely that a case study would involve interviewing multiple actors from across a firm. Case studies are a valuable way of adding depth to existing research, although it may be difficult to generalise the results to other instances.

This research has focussed on successful survivors. A more complete understanding of the development of family firms would need to examine those firms which did not survive (deaths) or which have survived but have not grown significantly in size. Over time it may then be possible to begin to understand the factors which have led to some firms being successful whilst others have not. This thesis suggests that initial success was, at least in part, a product of the entrepreneurial foresight on the part of family firm founders coupled with an ability to benefit from oil revenues through longstanding ties with the ruling families. However, such factors do not explain how successful survival to the second generation is accomplished or why some families who were in comparable positions to the successful business families did not create significant business growth.

The introduction of the Vision 2030 and the recent global financial crisis may, in the future, be seen as a watershed period in the development of Abu Dhabi. Just as the discovery and exploitation of oil and the creation of the UAE was a watershed in the early 1970's, the current period may be one in which Abu Dhabi changes its relationship with the oil industry and uses its oil revenues to create a radically different economy. At some point the current period of infrastructure development will end or at least slow down and a more diversified and sustainable economy will emerge. The opportunities for researchers to record, analyse and interpret this period of transformation should not be ignored.

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